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Nation's Business®

Why Small Firms Are Turning To ESOPs

When You Lose A Key Manager

Growth Opportunities In The Environment

SMALL BUSINESS OUTLOOK

Coping With Recession And The Assault On Business 1991

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Nation's Business
VOL. 79, NO. 1

ILLUSTRATION: JIM STARR

The economic downturn *has triggered business failures and other signs of distress. Small firms can retrench now to survive the recession and emerge more competitive for the recovery. Cover Story, Page 16.*

PHOTO: MARK RICHARDS—SIPA

Assessing risks *for environmental firms is a growing enterprise for Gail Brice. Environment, Page 39.*

Published by the U.S. Chamber of Commerce Washington, D.C.

Editor's Note

PHOTO: BRYAN ALLEN

Quiet growth *paid off for Mrs. T's Pierogies—and for the Twardzik family. Making It, Page 11.*

DEPARTMENTS

Cover Design: Hans A. Baum

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A Lesson For Lawmakers

PHOTO: ROBERT S. TOWNSEND—THE RECORD

Republican Christine Todd Whitman (photo) failed to achieve her goal of election to the U.S. Senate from New Jersey. But her presence will likely be felt in the 102nd Congress. Despite her defeat, she has become a powerful symbol of the change in the way citizens view their elected officials.

Whitman came within an eyelash of beating the well-known, well-financed incumbent, Democrat Bill Bradley, by opposing tax increases and favoring spending restraint.

Her near victory provided a powerful lesson—that nothing can undermine the normal safeguards of incumbency faster than higher tax bills. That point is related to the subject of our annual Small Business Outlook, which appears in this issue as a two-part package beginning on Page 16.

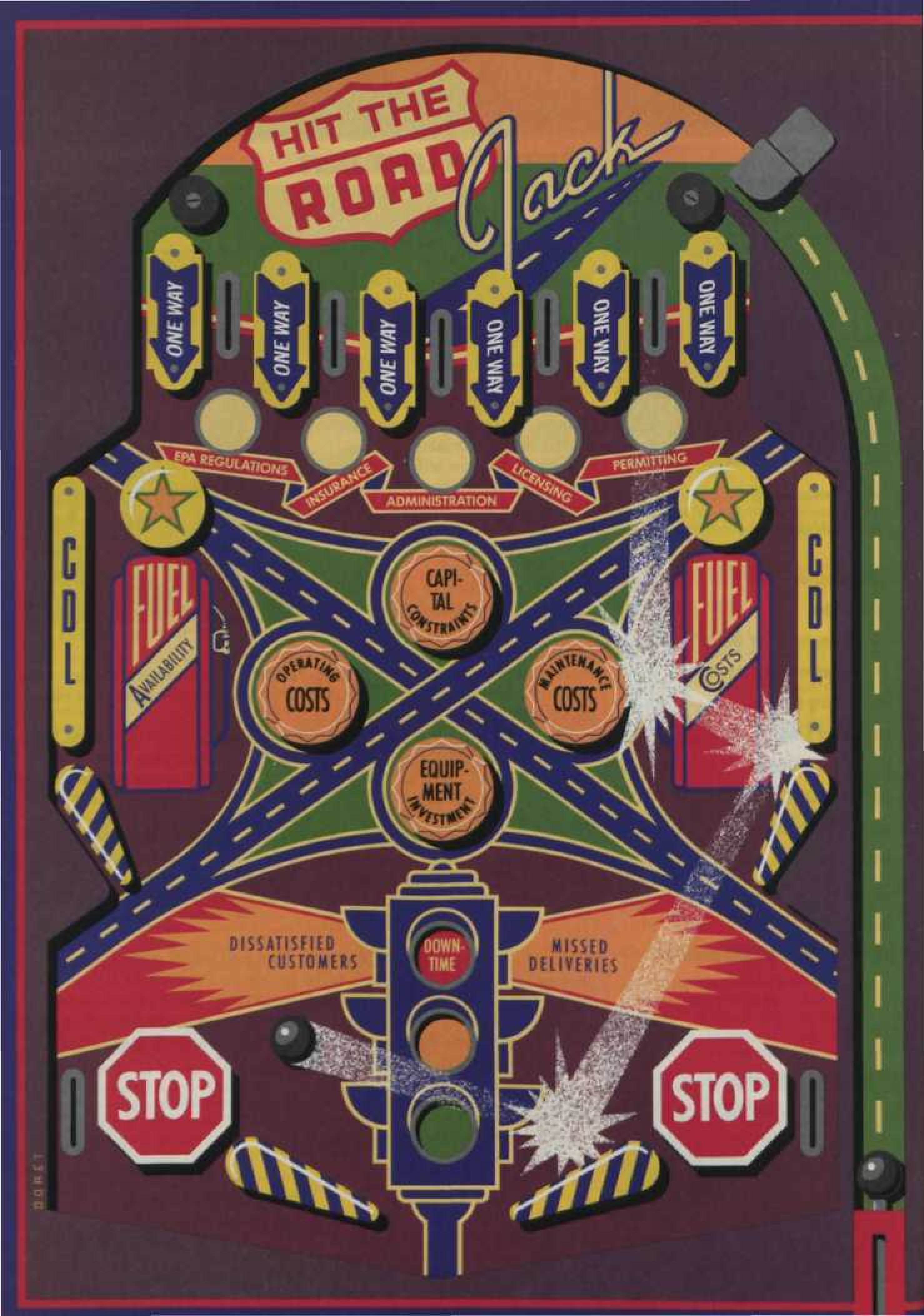
The lead story by Senior Editor Roger Thompson details what the experts expect for the overall economy in the new year. The second part of the package was written by Mary McElveen, our specialist on policy issues. It deals with 1991 fiscal-policy proposals that will not only include tax increases but also remind many lawmakers of the Whitman campaign. (For more, see the Editorial, on Page 75.)

While fiscal policy is a key issue, it's just one of the many areas covered in this comprehensive cover package. It will give you a base for your own planning as we enter a 1991 fraught with uncertainties.

If you're thinking about selling your firm, you might want to consider the ESOP route, described in the article on Page 59. It explains the advantages that employee stock-ownership plans offer to small-business owners, while noting that this approach isn't appropriate for all small companies. Even if you're not thinking of selling, you'll want to file this article for future reference.

Robert T. Gray

Robert T. Gray
Editor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Letters

States Practice Taxation Without Representation

Re your November cover story, "Watch The States," on state activism in taxes and other areas.

Taxation without representation by state and local governments, such as a bed tax for hotel rooms, is getting out of control.

Our company is a relatively small business based in western Pennsylvania, providing radio remote control products throughout the U.S. and Canada. We support our customers with service technicians who operate out of our shop here.

It seems that the state of Illinois now wishes to determine if any tax is due them as a result of these trips by going through our books and records as far back as 1981. Not even the federal government requires that we keep records that long.

States are spending more than voters are willing to give them. Consequently, they are struggling to come up with ways to tax those who do not control votes in their state.

This is shortsighted, because it keeps increasing the cost of doing business in their area.

And these cost increases are passed on to consumers.

At this rate we'll be going where the European Community is trying to come from.

James C. Robertson
Vice President
Cattron Inc.
Sharpsville, Pa.

A Mission Statement From Top To Bottom

I enjoyed Sharon Nelton's November commentary, "The Mission Of Finding A Mission," so much that I attached it to a copy of my company's newly revised Mission Statement.

It is for circulation to our executive committee prior to discussing the way we will ensure its adoption from top to bottom and bottom to top of our architectural-products firm.

I agree with her statement that "everything in a company grows out of its mission statement—its behavior, its structure, and all of its strategic planning and decisions."

Florence R. Cloudt, Chairman
Focal Point Inc.
Atlanta

The Tax Law's Bite

In "The New Tax Law's Impact" [December], you mention "other businesses likely to feel the pinch." But it is the consumer who is paying that hidden excise tax.

The beer-tax increase will cost consumers 14 to 28 percent more than they have been paying.

This may have a negative impact on our industry's sales volume and employment, and the federal government may not collect as much excise tax as it projects.

Jerry Miller
The Bissman Co.
Mansfield, Ohio

Opportunity In Hiring Disabled Workers

"Planning For The Disabled" [November] rightly pointed out that careful planning by employers will minimize any negative impact of the new Americans with Disabilities Act.

Most communities have local vocational rehabilitation agencies with expertise to assist businesses with compliance.

More than two-thirds of the 43 million persons challenged by disability represent a tremendous source of well-qualified workers now largely overlooked.

Thomas R. Bergerud
Executive Director
The Threshold, Inc.
West Bend, Wis.

Figures On Health-Care Charts—A Clarification

"10 Ways To Cut Your Health Costs Now" [October] presented a chart with average premiums for conventional, HMO, and PPO health plans for 1988 and 1989. The figures, generated by the Health Insurance Association of Ameri-

ca (HIAA), were accurate, but the percentage increases in premiums were misleading.

The cross-sectional data that you used in your report provide an accurate reflection, or snapshot, of current average premium estimates.

However, these figures include employers who are offering health coverage for the first time, as well as other respondents who changed health-insurance carriers or type of health plan in 1989.

Thus, when determining changes in premiums, it is more appropriate to rely on the HIAA panel of 1,200 employers who respond to our survey every year, and whose responses are weighted to control for the bias introduced by the cross-sectional data.

The accompanying table presents these figures, which are the most accurate reflection of trends in health-care premiums.

Cynthia B. Sullivan, Survey Field Director
Jon Gabel, Associate Director of Research
Health Insurance Association of America
Washington, D.C.

[Editor's Note: HIAA provided only the cross-sectional data at the time the information for the earlier chart was requested. The chart at left contains the HIAA's more complete figures.]

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

Comparison Of Average Monthly Premium Costs, 1988-1989

Monthly Premium In Dollars	Individual 1988	Individual 1989	Percent Increase	Family 1988	Family 1989	Percent Increase
Conventional	$98	$122	24%	$208	$277	34%
HMO	89	107	21	219	271	24
Staff/Group HMO	90	107	18	206	266	29
IPA/HMO	87	108	23	230	274	19
PPO	95	125	32	249	290	16

Source: HIAA Survey of Employer-Sponsored Health Benefits Plans, 1988-1989

CHART: MARCY MULLINS

Managing Your Small Business

Designing a severance plan, avoiding age-bias suits, and landing big contracts for small firms.

By Bradford McKee

BENEFITS

Do's And Don'ts On Severance Pay

A small firm's severance policies should be uniform for all employees but also should retain flexibility for the company, says Right Associates, a Philadelphia-based consulting firm.

When cutting staff or positions, most small businesses give severance pay, basing the benefit on length of service and extending it as a lump sum, according to a new study by the firm. About one-third of small firms reported that they give severance pay to employees fired for poor performance.

Don't create a severance plan with two or more tiers—one level for the bulk of workers and a higher scale for executives, for example—if you don't want to trigger employee complaints of unfairness. One severance scale for all will spare you such ire, says Virginia Lord, a Right Associates analyst.

Lord also suggests that you outline your severance plan in writing—preferably in your employee handbook—to "establish a feeling of confidence" among employees.

Tell employees only the reasons for separation that would warrant severance pay, however. Don't specify amounts of severance pay or the formula for computing amounts. Leave yourself room to alter the formula if your company's financial condition should change.

If you broadcast your formula, you could incur "contract obligations," says Robert Stewart, a Philadelphia attorney who worked on Right Associates' study. "Don't back yourself into a specific benefit level," he suggests.

Stewart also recommends making severance payments in increments and offering severed employees a "landing bonus" for taking a new job. ■

WORK FORCE

Basic-Skills Training For Competitiveness

Some small companies find that basic-skills training for their employees is a good investment.

"You've got to have employees who are educated to compete in the market," says Ronald A. Pearce, vice president at National Building Systems. The Effingham, Ill., company has sent 20 employees through 16-week basic courses in subjects such as reading, math, and plant safety.

The firm's employees train at work on company time with the help of a local education group.

In Holyoke, Mass., 20 employees at Hampden Papers Inc. have finished literacy and high-school-diploma classes at work over the past three years. A board of local experts helps steer the company's program.

To learn more about basic-skills training for employees, contact the Business Council for Effective Literacy, 35th Floor, 1221 Avenue of the Americas, New York, N.Y. 10020; (212) 512-2415. ■

LAW

Is It Downsizing, Or Is It Discrimination?

If you are scaling back or reorganizing your staff, take steps to guard against discrimination suits, especially age-bias claims, legal experts suggest.

Analyze your company's makeup both before and after staff cuts or shuffles, says Albert Zakarian, a Boston employment attorney. "Be sure there is no inadvertent discrimination."

Experts also say it's important that you have a formal plan spelling out the reorganization's goals—to increase profits, for example, or to become more competitive, or to service debt.

Be careful about cutting the highest-paid people to save money—they may be the oldest, too, warns Mark Dichter, a lawyer in Philadelphia.

If you offer incentives for early retirement, Dichter adds, get a legal agreement with the employee that he or she is leaving voluntarily, that no coercion was used, that the employee is free to keep the job, and that he or she promises explicitly not to sue your firm on grounds of age bias. ■

MINORITY BUSINESS

Small Suppliers, Big Contracts

Minority suppliers who tap big business may find lots of work in just a few deals, according to such experts as entrepreneur Ben Wiley, of Houston. Wiley began his office-supply firm, International Business Consumables Corp., three years ago at home with $600. His firm now has yearly receipts of $1.2 million

PHOTO: PAUL S. HOWELL

Ben Wiley *built his office-supply firm with big-company contracts.*

and contracts with IBM and Anheuser-Busch. Seek big firms that "mentor" minority firms toward meeting contract standards, he advises.

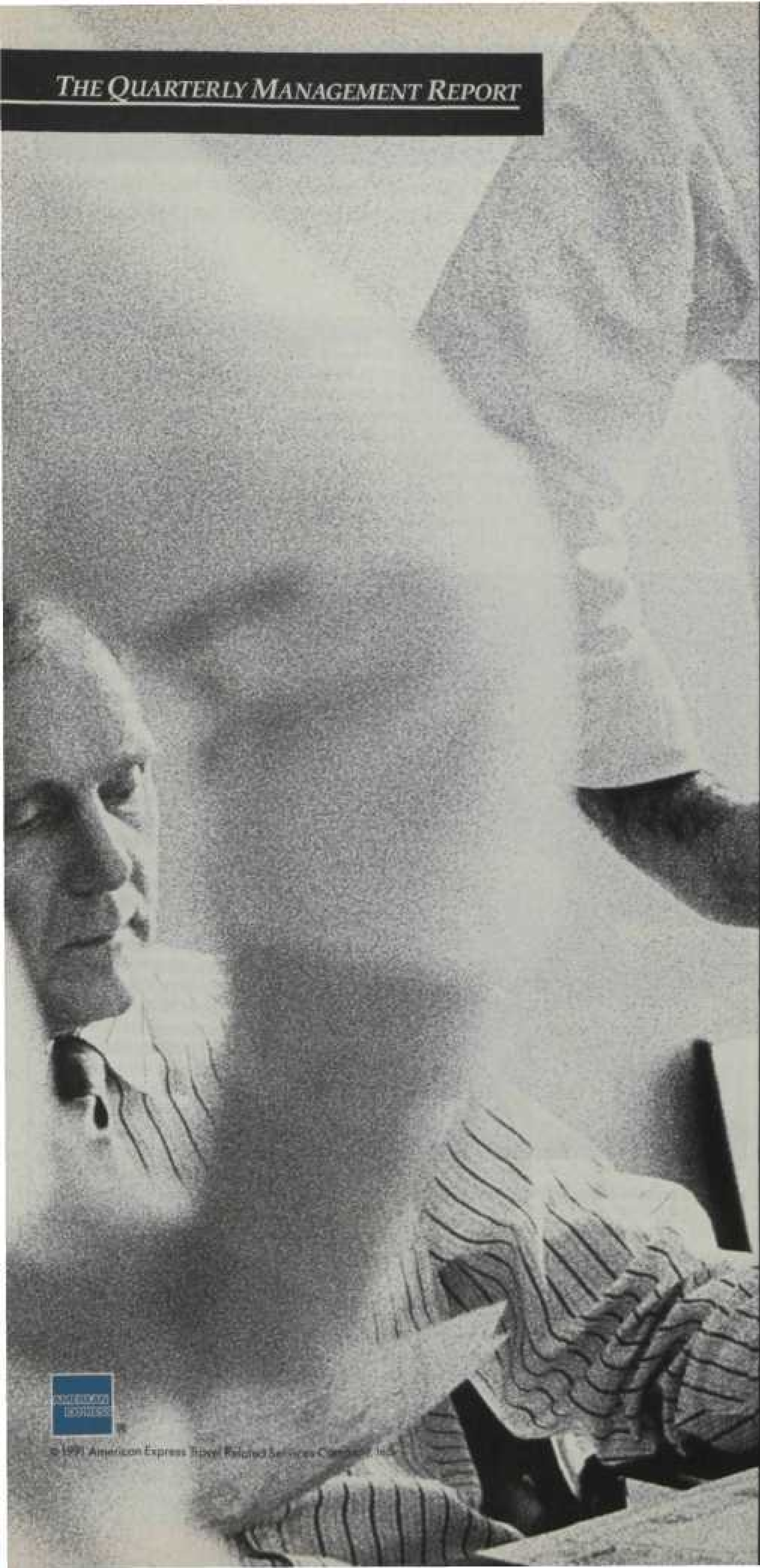
Major corporations doing business with minority firms include the Aluminum Company of America, seeking to double its business of this type; Eastman Kodak, with at least 400 minority and women-owned suppliers; and J.C. Penney Co., with $335 million worth of minority-business activity a year.

For an information kit, contact the National Minority Supplier Development Council, 15 West 39th St., New York, N.Y. 10018; (212) 944-2430. ■

NB TIP

✔ Business people moving to Europe might like a recently issued set of free booklets from the Coopers & Lybrand accounting firm. Titled *Foreign Nationals Working In . . .*, the series explains overseas customs such as Dutch school fees and the German church tax. Each of the nine guides covers a different country. Write to Arnold Koonin, Coopers & Lybrand, 1800 M Street, N.W., Washington, D.C. 20036. NB

THE QUARTERLY MANAGEMENT REPORT



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ENTREPRENEUR'S NOTEBOOK

A Second Career For The Fun Of It

By Larry Mahar

When I was in my early 30s and working for a major corporation, my boss told me his career goal was to retire at 55. Although retirement was not on my agenda, his remark made me think there were options other than working for the corporation forever.

By my late 30s, I had begun moving into management with the company and eventually became head of advertising at the division level. In 1981, after a job move and two mergers into the world's biggest ad agency, I was eligible for two pensions and could retire at 53.

With our eight children out of the nest, my wife, Hazel, and I could seriously consider going off on our own. The pensions could cover the mortgage and a few necessities, but Hazel and I knew we would need additional income.

Over the years we had dabbled in mail order—a pump-type toothpaste dispenser for attachment to the bathroom wall, and a planter that dropped one tomato seed at a time into a hole. We had to buy both products, however, so we just could not get the margins we needed to succeed.

The idea for a viable enterprise came to us as a gift—from Hazel. Just before our wedding anniversary in 1975, Hazel became ill and couldn't get a gift for me, so our daughter Monica made one on her mother's behalf. Using black construction paper and short quotations clipped from a magazine article extolling the virtues of a husband, Monica created a montage. She placed the quotes in a frame with the title "What Is a Husband?" and gave it to Hazel to present to me.

As soon as I saw the gift, I realized that it embodied the elements of the business we would create. What could cost less than putting ink on paper, I told Hazel. "And what could be closer to what I have been doing all my life—putting words on paper?"

The result was a product that was not in a frame but could be put into a frame by the recipient. Printed on parchment and sold with a mailing envelope, it could be mailed as a greeting card, but, unlike a greeting card, it could get a second life. We coined the word "Frameables" and drafted a slogan: "When a mere card is not enough." We would write the verses together. We would call on customers together.

PHOTO: CARL HOWARD—BLACK STAR

Message makers *Hazel and Larry Mahar.*

We found we could make Frameables for about 9 cents apiece. We set our wholesale price at 99 cents each with a suggested retail price of $1.99 each.

When I gave my retirement notice in October 1981, some of my colleagues congratulated me. Others looked at the floor and asked what I really planned to do for a living. I was not surprised. People in the advertising business are known for their pipe dreams. We couldn't let ourselves fail, though, and we found that the determination to avoid the embarrassment of having to say you failed can make you work harder.

With the help of our daughter Laura, who is our calligrapher, we made some Frameables, and in July 1982 we loaded them in the car—along with display racks—and went calling on any store that looked like it would sell a greeting card.

The first day out, Hazel and I made 15 calls without a sale. We did not discuss it on our way home. The next day, everybody bought. Well, almost everybody.

We lost money the first two years. To make ends meet, we parted with our Cadillac one winter and sold our mountain hideaway the next year.

Today our enterprise is thriving. We sell nearly 90,000 Frameables a year to retailers in 200 towns and cities in five Northeastern states. Most of our customers are Hallmark stores, but we're also in department stores, convenience stores, pharmacies, gift shops, and even one truck stop.

In a typical rack of 12 to 16 titles, most Frameables are reflections on friendship, family ties, inspirational values, and romantic love. In fact, just over half of the Frameables—including our biggest seller—are expressions of love. Hazel and I have composed all but two of the Frameables' verses; one is in the public domain, and we pay a fee for the other one.

Frameables are profitable because, I think, they have found a niche—expressions that are more lasting than greeting cards—and because we were determined not to let them die.

A lot of entrepreneurs want their business to be big. We have resisted bigness. We're more interested in enjoying what we do—just as long as we are making a nice living. We travel three days a week to meet with our customers; we know every one by name. We take our time, enjoy the scenery, and relax sometimes at quaint restaurants along the way.

It boggles my mind when I think that others are passing up chances to enjoy the same kind of lifestyle. They could do it if they would concentrate on entrepreneurial plans that simply use their existing talents more creatively. If there is any lesson to be learned from our experience, I think it is that people should consider a second career.

Larry and Hazel Mahar operate L&H Mahar Art Publishers, in Middle Grove, N.Y.

Readers with special insights on meeting the challenges of starting and running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062.*

Making It

Growing businesses share their experiences in creating and marketing new products and services.

From The Pierogy Capital

Shenandoah, Pa., still looks like the coal-mining town it used to be, with its old row houses squeezed into the folds of the hills between Harrisburg and Wilkes-Barre. In the boom days before the Depression, one longtime resident says, Shenandoah had four times its present population of 7,000, and miners would sleep in shifts—when one man left his bed to go to work, another man took his place.

Times change. These days, Shenandoah's leading industry is not coal but an ethnic food, the pierogy. The town's largest employer, with around 200 people on its payroll, is Ateeco, a homegrown company that is the largest U.S. producer of pierogies; it sells more than $15 million worth a year, under the Mrs. T's label.

Ateeco describes pierogies, Eastern European in origin, as "pasta pockets"—small squares of pasta dough, filled with, typically, cheddar cheese and mashed potato. Ateeco sells five kinds of frozen pierogies, which the purchaser boils (or, in one case, microwaves) till done.

The pierogy, so exotic-sounding a dish, is, up close, very comforting and familiar; rare is the consumer who tastes one and doesn't like it. Says Ted Twardzik, 63, who founded Ateeco (which stands for "a Twardzik company") in 1952 and is still its chairman: "You find a kid who doesn't like the potato-cheese combination, there's something wrong with him."

Twardzik was born and raised in Shenandoah. He attended the University of Notre Dame on the GI Bill and worked for a year in New York City, as a field auditor for a national accounting firm. Then he returned to Shenandoah, to try reproducing his Polish-American mother's pierogies in a commercially viable form—thus the Mrs. T's brand.

Not everyone thought Twardzik was making a shrewd career move. "He was an embarrassment to his family," says Tim Twardzik, 31, the middle of Ted's three sons and now Ateeco's vice president of marketing. (The youngest son, Tom, 29, is president; the eldest son is not in the business.)

PHOTO: BRYAN ALLEN

Ted, Tom, and Tim Twardzik *(wearing hairnets on the production line) savor the "pasta pockets" that their company has been making since 1952.*

Thanks to Shenandoah's large Polish population, homemade pierogies were popular items at church bazaars. When he put refrigerated pierogies into a neighborhood grocery store, Ted Twardzik says, "it was like trying to sell canned spaghetti to Italians." Fortunately, he says, the store "would actually browbeat their customers to try this, try that," and his pierogies caught on.

Twardzik began freezing his pierogies and delivering them to other stores in the area. Then he hooked up with a broker who eventually spread Mrs. T's pierogies to other parts of the country.

The business grew very quietly, with minimal advertising, and, Ted says, "I was very happy, because I didn't want to attract attention"—and competition. Ateeco became a paradigmatic niche company: "The big companies wouldn't consider our market, because it was just too small. And the small guy, just starting, he couldn't compete with us."

About five years ago, Twardzik was ready to ease into retirement, but he didn't think his sons—then barely out of college—were prepared to run the company. And if they weren't, he would jeopardize his own security by turning the reins over to them.

Twardzik tried first to hire someone "who could teach my boys what happens in a bigger company—a mentor." When no one could be found for that job, he began looking for a buyer. That search did not go well, either. Finally, on the drive back from rancorous negotiations in New York, Tim and Tom told their father that they wanted to take over.

They did, a little over a year ago, knowing that, as Tom says, "up until maybe three months before he gave us the opportunity to run the company, he didn't think we could do it."

Far from making the transition more difficult, Tom says, his father's hesitation has made it easier, by, in effect,

teaching the sons humility: "We didn't walk in from college and get handed the business, so we don't have an ego problem with Dad trampling all over our turf." Ted, for his part, says he's "95 percent" out of the company.

Ted was never interested in turning Ateeco into a powerhouse, but now, he says, his sons have no choice but to grow at a faster pace—perhaps by taking the company public in a few years—because greater competition is likely. "There's been some people around here looking," he says, speaking of the buyers he courted, "and they know what the potential is."

The "potential" lies in a product that has strong taste appeal even though it is unknown to most of the public. The pierogy is also inherently a healthful product, low in fat and high in carbohydrates. Only when prepared in the traditional way—french-fried, with high-calorie toppings—does it become a dietary nightmare. (Says Ted Twardzik of such old-fashioned pierogies: "They're bombs.")

To exploit the pierogy's nutritional appeal, Tim, who majored in marketing at Notre Dame, has begun securing tie-ins with triathlons and other athletic events; Mrs. T's is, for instance, the official pierogy of the Chicago Marathon.

Even though Tim is older, Tom, as president, has the more exalted title because he has assumed his father's responsibilities for actually producing the pierogies. Ateeco now turns out 20,000 an hour—4 million a week—on three production lines. "We're a production-driven company," says Tim. "We're not the company of the '90s, market-driven and responsive to the customer."

Even the most production-driven company can't ignore consumer tastes entirely, of course. Ateeco dropped its prune pierogy more than 20 years ago.

—Michael Barrier

How He Rides To Success On A Different Kind Of Business Cycle

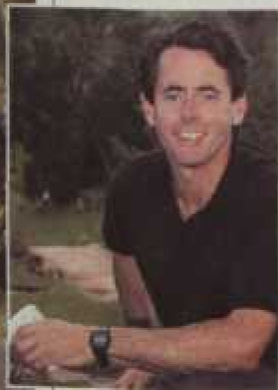

PHOTO: [illegible]

Tom Hale's *Berkeley, Calif., company offers bicycle tours—complete with escorts and catered meals—to such exotic locales as the island of Bali.*

Taking an unconventional route has made all the difference for Backroads Bicycle Touring of Berkeley, Calif.

This successful operation offers bicycle excursions of two to 17 days to more than 50 scenic regions around the world. In locations as familiar as Yellowstone and the California wine country, and as remote as Bali, China, and Australia, tour participants use their own pedal power to explore and interact with indigenous cultures, scenery, and wildlife.

Tom Hale, 38, Backroads' founder and owner, recalls its origins: "One night at 2 in the morning I woke up, wrote about eight pages—what I like to call my business plan—and decided I wanted to do this. There wasn't a great deal of premeditation leading up to that decision."

Three months later, Hale quit his government job in Las Vegas, embarked on a 5,000-mile bicycling trip through the western U.S., and ended up in Berkeley, where he started Backroads in the basement of his home. With the help of three part-time employees, and financed by small loans from friends and family, plus Hale's own savings, Backroads got off to a wobbly start.

That was in 1979. Today Backroads employs 60 trip leaders and an office staff of 25. The company expects 1990 sales to top $6 million, up from $5.6 million in 1989.

Hale, who holds a master's degree in environmental planning, quickly discovered an affinity for business as well as for bicycling. "Right from the start I loved every aspect of this business," he says. "I went into it 100 percent."

Much of his effort has gone into assuring high levels of service. Guests on a Backroads tour enjoy catered meals, accommodations at local inns or campsites, a companion vehicle to carry luggage and supplies, the multiple skills of two highly trained trip leaders, and the camaraderie of 18 to 26 fellow cyclists. Each guest cycles at his or her own pace, with a support van nearby when a beginning cyclist wants to hop aboard for a while.

Behind the scenes, Backroads maintains a network of computers and in-house telephone operators to aid prospective customers in selecting from among the tours, which range in price from $179 to $2,900. Hale recently began offering, for sale or rent, a Backroads-designed line of mountain and road bikes.

"We are very marketing-intensive by necessity," Hale says, "because there is a very small segment of the population interested in doing this sort of thing." Repeat customers account for 45 percent of sales. Backroads relies heavily on direct mail, working primarily with a list generated by inquiries.

Hale not only manages the company but also personally plans and researches each new tour and continually updates established ones. "It's a very complicated business," he says, "considering we are a small business. If someone were thinking of getting into a business that's pretty straightforward, I would recommend Laundromats or something, but not bicycle trips. It's not conducive to an absentee-landlord approach."

—Janet R. Beales

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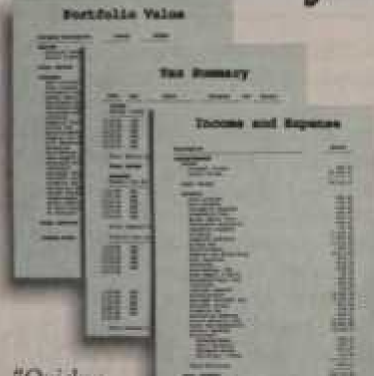

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The Man Who Transformed T-Shirts From Underwear Into Fashion

He has been called the T-shirt king of America and the father of the modern T-shirt. And although he says of such encomiums that they are "not that important to me," Frederick Carleton "Rick" Ralston, 49, doesn't deny their accuracy.

Thirty years ago, Ralston spray-painted a design on a T-shirt, turning it from underwear into fashion and launching a mass passion for T-shirts that just won't die. His company, Crazy Shirts Inc., in suburban Honolulu, comprises two factories and 42 retail stores in Hawaii and on the mainland. It takes in $65 million a year—twice the revenues of just five years ago.

Ralston's entrepreneurial odyssey began in the summer of 1960, when he was a skinny teenager just out of high school in Montebello, Calif. He and a buddy known as "Crazy Arab" headed for Santa Catalina Island to spray-paint designs on beach towels and sell them. "I practiced on an old T-shirt, doing an ugly monster shape," recalls Ralston. "I wore it down the street, and a tourist stopped me and bought it off my back for his daughter."

"Forget beach towels," he told Crazy Arab. "We're going into the T-shirt business."

They set up shop on the sidewalk. Tourists had to buy their own blank T-shirts from a local sporting-goods shop, and Ralston and Crazy Arab embellished them with depictions of monsters, surfers, or hot rods at $2.85 apiece, sometimes making as much as $100 a day.

Two years later, after another summer on Catalina and two years studying automotive design at the Los Angeles Art Center School of Design, Ralston thought he'd try his luck with T-shirts on the sidewalks of Waikiki. He fell under Hawaii's spell and decided to stay. The summer's tourism season had put enough money in his pockets, he says, "to pay rent, buy a bag of rice, do a little surfing, chase girls, and do the things that young men 20 years old do."

In 1964, he opened a tiny shop in the bustling Waikiki bazaar known as the International Market Place. It was called Ricky's Crazy Shirts, and, to Ralston's knowledge, it was the first store anywhere devoted exclusively to T-shirts and sweatshirts. For greater speed, he turned from spray-painting to screen-printing the designs.

In 1970, Crazy Shirts, as it was called by then, expanded with a second shop in Honolulu's Ala Moana shopping center, and Ralston began to get his first competitors. "All of a sudden there were T-shirt shops opening every place," he says.

But most of them applied their designs with heat transfers. "We never did that," says Ralston, explaining that heat transfers tend to crack and peel. Even before the competition came along, he says, he wanted to "upgrade the image of underwear" and make T-shirts the best they could be, with the best artwork and "the finest T-shirt that I could get."

When he started out, he bought plain T-shirts at retail from J.C. Penney. As he grew, he was able to buy direct from the manufacturer. And when his volume grew large enough to enable him to specify what he wanted, he ordered shirts of heavier weight than most T-shirts, with more stitches per inch, more tailoring, and Lycra fibers in collars and cuffs so they would hold their shape after repeated washing.

The company's shirts still sport an occasional hot rod or surfer, but they are more likely to portray fishing boats and porpoises. Among the most popular designs are those featuring the late B. Kliban's famous cat—as lifeguard, surfer, or fitness nut.

Ralston says that his business decisions are guided by three factors, with about 60 percent of the weight going to what he calls image, or "offering the best possible product so that our customer is going to think well of our product and our service."

The next 30 percent is personnel, under which he considers such questions as: How is the decision going to affect the company's 750 employees? Are they going to feel positive about it? Is it going to create an undue workload?

Profit is given a 10 percent weight. "You can't carry on if you don't make a profit," Ralston acknowledges, but he adds that Crazy Shirts' experience indicates that "if you have the image and you've got happy people," the profit will follow.

Crazy Shirts now comes under the umbrella of a parent company called Ralston Enterprises. Ralston has expanded to a number of other ventures, including one that acquires and restores historic properties.

Ralston admits to being a "Type A" personality. But he has chosen to live in a "Type B" environment, where the spirit of *aloha*—with its complex meanings of welcome, love, caring, and respect—holds sway.

PHOTO: KEN SAKAMOTO—BLACK STAR

Rick Ralston *took a casual idea—spray-painting designs on T-shirts—to Hawaii 28 years ago. Now his company takes in $65 million a year.*

Does that spirit affect the way Ralston manages?

"It sure does," he says, explaining that he sees Hawaii's management style as more laid-back, more patient with people, and more caring about them.

Although he is still "an aggressive, assertive, let's-get-it-done kind of person," Ralston says, he has learned to temper himself.

"We should enjoy our work," he says. "We should enjoy life. That's the first thing. Business should support that."

—*Sharon Nelton*

COVER STORY

Business Copes With The Recession

By Roger Thompson

The owners of small businesses begin the new year more pessimistic about prospects for their companies and the economy than they have been at any time since the last recession, in 1981-82. And for good reason.

Eight out of 10 economists surveyed in November by *Blue Chip Economic Indicators*, a Sedona, Ariz., newsletter, said they believe the nation entered a mild recession in late 1990 and will not emerge from it until spring. (See the charts below.) "It now seems likely that America's longest peacetime expansion is about to come to an end," says Robert J. Eggert, the publication's editor.

Last May, only one in 10 of the economists surveyed by *Blue Chip* predicted a recession in 1990. But cautious optimism turned to pessimism after Iraq invaded Kuwait on Aug. 2. The escalation of oil prices and the collapse in consumer confidence that followed were sufficient to tip an already weakened U.S. economy into recession.

Smaller firms have been feeling the brunt of the downturn. "Small businesses are the most vulnerable in an economic downturn," says Thomas A. Gray, chief economist for the U.S. Small Business Administration. "They go into recession six to nine months ahead of everyone else."

Those companies are throwing up defenses to cope with the downturn, however. Among the strategies: selective retrenchment, development or improvement of business plans as a basis for financing, tightening of credit policies, getting tough with overdue accounts, and recognizing that a recession is cause for clearheaded decisions, not panic.

A major signal of the tough conditions that will require survival thinking by small business is the *Blue Chip* consensus forecast for 1991, which expects that the economy will grow at a barely detectable annual rate of 0.5 percent, half the anemic rate of 1990. By contrast, gross national product grew by 2.8 per-

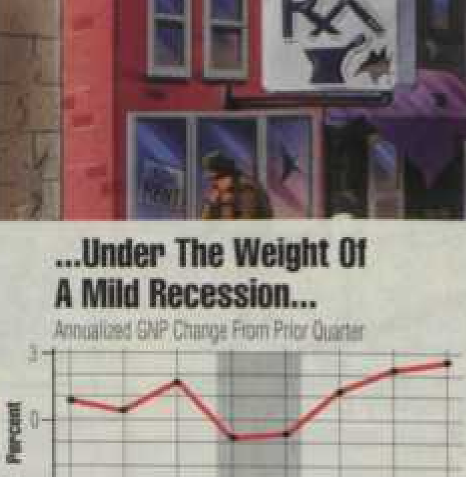
Growth Slows To Eight-Year Low...

Gross National Product / Year-To-Year Change

Source: Bureau of Economic Analysis
*Forecasts: Blue Chip Economic Indicators

...Under The Weight Of A Mild Recession...

Annualized GNP Change From Prior Quarter



Source: Blue Chip Economic Indicators *Forecast

...Signaled By Plunging Consumer Confidence

Confidence Index (1985=100)

Source: The Conference Board

With recession buffeting small business and with crisis gripping the Middle East, the economic outlook for 1991 has turned gloomy. Yet small firms can take steps now to survive the downturn.

1991 Small Business Outlook

cent in 1989 and by a robust 4.5 percent in 1988.

The outlook also calls for interest rates and inflation to begin moving downward slightly during the second quarter, while unemployment peaks and holds at 6.3 percent—up from a low of 5.2 percent in January 1990.

If the *Blue Chip* forecast proves accurate, the recession of 1990-91 would be the mildest of eight economic declines since World War II. (See the chart on Page 21.)

That consensus, however, is more optimistic than the outlook of the U.S. Chamber of Commerce, which participates in the monthly *Blue Chip* survey of 55 economists. The Chamber last August was the first business organization to forecast the imminent arrival of recession, generally defined as two consecutive quarters of negative growth.

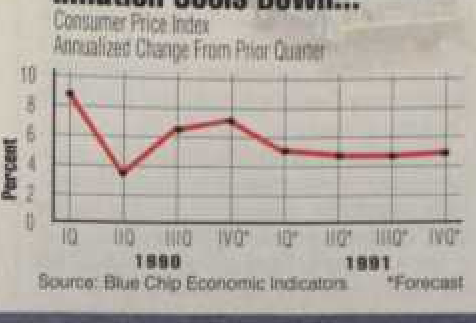
At the time, the Chamber's outlook called for a mild, six-month downturn beginning in late 1990. Since then, the Chamber's chief economist, Richard Rahn, has grown more pessimistic. He now projects that the recession will last for at least nine months, pushing unemployment up to 7.1 percent by the end of the year.

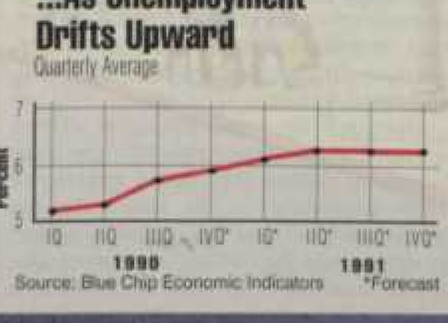
"Our increased pessimism results from the imposition of higher taxes, more regulation on the economy, and an acceleration of federal spending that will crowd out private investment and keep interest rates from falling," says Rahn. The Chamber has forecast a drop in interest rates of only half a percentage point by the end of 1991, even as the recession puts the brakes on inflation.

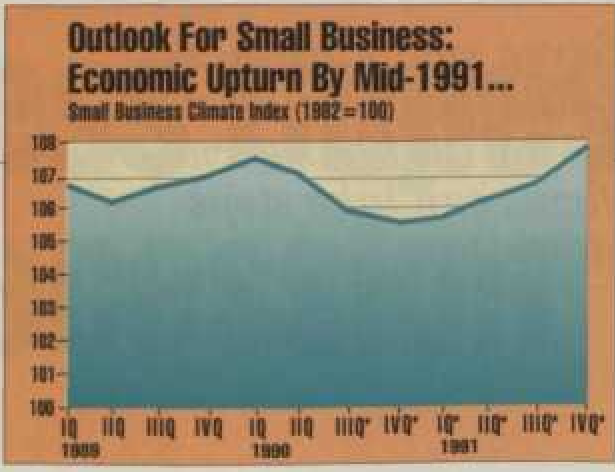
Rahn notes that economic growth has fallen below an annual rate of 2 percent in each of the past six quarters, compared with an annual rate of 4 percent from 1983 through 1988.

"Rather than gliding in for a soft landing," Rahn says, "the economy is sinking."

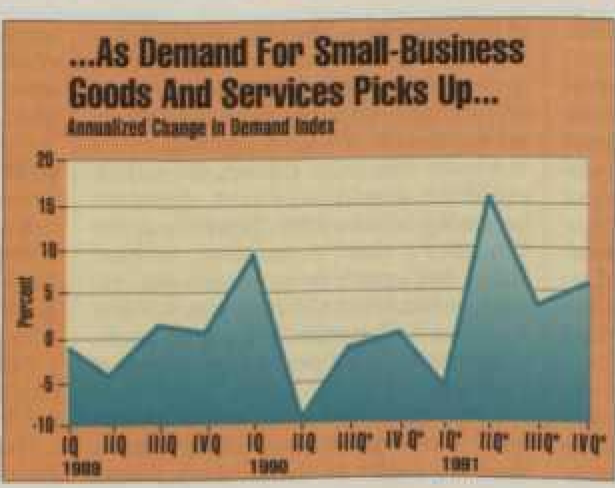
The wild card in everyone's outlook for the new year is the Persian Gulf



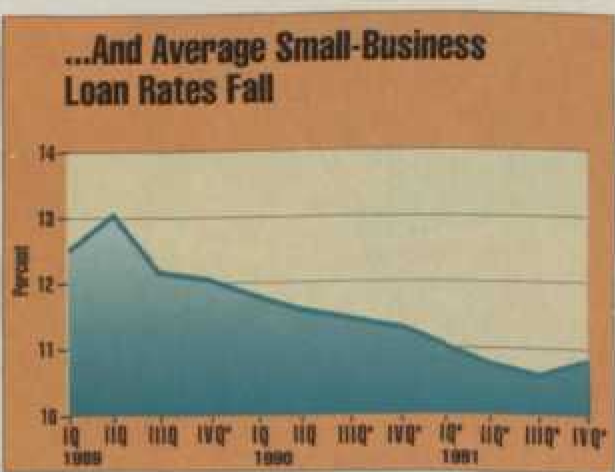




Outlook For Small Business: Economic Upturn By Mid-1991...
Small Business Climate Index (1982=100)



...As Demand For Small-Business Goods And Services Picks Up...
Annualized Change in Demand Index



...And Average Small-Business Loan Rates Fall

Source: American Express *Forecast

crisis. War or a quick peaceful settlement of the situation in the Persian Gulf would dramatically change prospects for the economy in 1991. (See the article on Page 19.)

Economists only now are catching up with what most small companies have been experiencing for months. Surveys indicate that the economic downturn began to take its toll on small firms as early as last spring.

The recent surge in business failures underscores the point. After three years of steady declines, business failures rose 14.5 percent during the first nine months of 1990, according to the Dun & Bradstreet Corp., a major marketer of business information and services. Most of the 43,836 businesses that collapsed through August were small.

When categorized according to industry, the sharpest increases in failures came in finance, insurance, and real-estate businesses.

Among regions, the worst hit were New England and the Middle Atlantic states, where combined failures increased by more than 90 percent over the same period last year. (See the chart on Page 21.) "Every industry and every state in these two regions reported sharp increases in business failures," says Joseph W. Duncan, corporate economist and chief statistician for Dun & Bradstreet.

Only two of the nation's nine census regions have reported decreases in failures during the first nine months of 1990. The two regions are the Pacific Northwest and the so-called Rust Belt states bordering the Great Lakes. The industrial Midwest has gotten a boost from surging U.S. exports, and the Pacific Northwest has been booming in recent years, thanks to trade with Asia and strong aerospace and technology companies.

The Dun & Bradstreet tally of business failures counts only those that entail a loss to creditors. Those that fold without unpaid debts outnumber those that do by 4-to-1, Dun & Bradstreet estimates. That would bring the nine-month total of business failures to nearly 220,000.

Another clear sign of small-business distress appeared late in the second quarter of 1990, as demand for small firms' goods and services dropped and operating costs headed up, according to the American Express Small Business Climate Index. (See the charts above.) The index is a quarterly measure of key economic factors affecting small companies, specifically, demand for goods and services, financing and operating costs, and small-business optimism.

Demand for small-business output dropped at an annual rate of more than 9 percent during the second quarter of 1990, according to the latest figures available. That was the largest quarterly drop since the 1981-82 recession. Demand was hurt by slow employment growth, a 3.6-percent drop in retail sales, and plummeting housing starts.

Operating costs rose by 4.1 percent during the second quarter, up slightly from the previous quarter. But the index anticipates a spike in costs because of sharply higher oil prices.

The Climate Index forecasts tough times ahead for small companies. "We see in the Climate Index the likelihood of a mild recession in the fourth quarter of 1990 and the first two quarters of 1991," says Roger Ballou, president of American Express Travel Related Services. "The good news is that we see growth returning during the second half of the year."

While the downturn hit small companies early in 1990, the Persian Gulf crisis made a bad situation worse by undermining business and consumer confidence. By mid-October, optimism among small-business owners was at its lowest level in eight years, according to a Dun & Bradstreet survey.

An October *Nation's Business* survey of readers found 73 percent expecting the downturn to last one year or longer. (For more results of the survey, see Page 20.)

Consumers too have turned pessimistic, according to the Consumer Confidence Index issued by the Conference Board, a nonprofit business-information organization whose members are companies and top executives. This monthly survey of consumers stood at 102 in July (100 represents the level of confidence expressed in 1985), fell to 85 in August and September, and then plunged 24 points to register 61 in October. That was the biggest one-month loss since the index was begun more than 20 years ago.

"The current depressed level of the Consumer Confidence Index is historically associated with recession," says Fabian Linden, executive director of the Conference Board's Consumer Research Center.

Small Business Administration economist Gray warns that "the longer people have negative expectations, the more they cut back on expenditures."

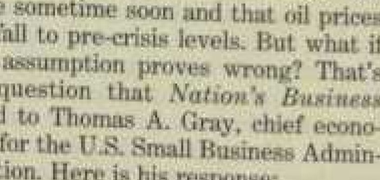
Says Eggert, *Blue Chip's* editor: "After eight years of economic growth, re-

Choose Your 1991 Forecast: Peace, War, Or Stalemate

Most economic forecasts for 1991 assume that the Persian Gulf crisis will abate sometime soon and that oil prices will fall to pre-crisis levels. But what if that assumption proves wrong? That's the question that *Nation's Business* posed to Thomas A. Gray, chief economist for the U.S. Small Business Administration. Here is his response:

When asked for a 1991 economic forecast, one noted economist recently retorted:

"Tell me what will happen in the Persian Gulf, and I'll tell you which way the economy will go." Even in the best of times, forecasting is inexact. But the Middle East situation has unsettled even the most skilled forecasters. As a result, this year forecasters are developing alternative scenarios for the economy in 1991. Each one is based on different assumptions about what might happen halfway around the world.

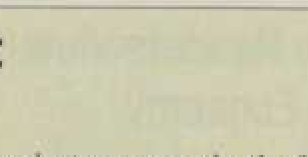


Peace Scenario. If the concerted actions initiated by the United States and reinforced by the United Nations produce a peaceful solution before the end of 1990, it probably would not head off a slight decline in GNP for the last quarter of the year.

The economy would recover quickly in the first two quarters of 1991, led by increases in consumer spending, business investment, and exports. Oil prices would quickly fall to the $18-to-$20-per-barrel range, inflation would decline, and the economy would continue to strengthen during the last half of the year. The trade deficit and the federal deficit both would decline, and the economy would continue to grow in both 1992 and 1993.

War Scenario. The impact that war in the Persian Gulf would have on the U.S. economy depends on several things, including the length of the conflict, the extent of any interruption in Saudi oil production and shipping capability, and the reaction of the world's governments holding backup supplies of oil.

In a short-war scenario, the fighting would begin by early 1991. Saudi oil fields would sustain moderate damage, and world oil prices would near $60 per barrel. But the Saudi oil fields would be repaired by the end of 1991, and oil prices would trend down over the latter half of the year. Reserve oil supplies held by the United States and other governments would not be released.



The U.S. economy (actually, the whole world economy) would be hurt badly by this scenario.

Increased government spending in preparation for war in the Gulf would hold the decline in GNP to 1 percent during the last quarter of 1990. The real economic damage would show up in the first two quarters of 1991, when growth would decline at an annual rate of 2 percent to 2.5 percent.

Government spending and the federal deficit would grow at an alarming rate, while output and consumption would fall in almost every category.

Growth rates in all the major economies would skid downward as production is constrained, prices rise, and consumer spending power falls. Oil-exporting nations would see major windfall profits as the price of oil remains above $40 per barrel during most of the year. Parts of the U.S., such as Texas, Louisiana, Oklahoma, Alaska, and California, also would reap benefits from increased oil production.

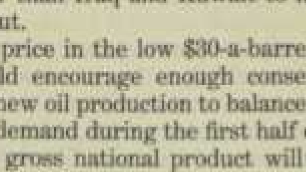
A prolonged war that heavily damaged Saudi oil output would drive oil prices above $70 per barrel, perhaps approaching $100 per barrel. At that level, the U.S. and other developed countries would find their economies seriously damaged by a combination of lowered real income, constrained industrial output, declining consumption, and rising inflation, trade deficits, and government deficits. The U.S. would fall into a major recession in early 1991, with GNP falling at an annual rate of 4 percent to 5 percent.

The end of the war, in either the short-war or the long-war scenario, would produce a rapid turnaround in U.S. expectations and in growth. The GNP would turn strongly positive almost immediately, and production and consumption would increase rapidly.

Stalemate Scenario. If we have a prolonged stalemate in the Gulf, with nothing heavier than impassioned rhetoric being exchanged between noncombatants, then the world oil supply will tend to rise as higher oil prices spur nations other than Iraq and Kuwait to increase output.

A price in the low $30-a-barrel range should encourage enough conservation and new oil production to balance supply and demand during the first half of 1991. U.S. gross national product will fall by one-half of 1 percent in the fourth quarter of 1990. Prices will rise, adding almost 1 percent to the 4.6 percent inflation rate expected prior to Iraq's invasion.

The stalemate already has made consumers jittery. Increased uncertainty makes consumers even more cautious. Caution makes consumers put off large expenditures such as buying new houses, cars, refrigerators, and other durable goods. Enough caution reinforces the trend toward shorter workweeks, more frequent layoffs, and continuing weakness in personal-income growth.



However, continued hope for a diplomatic solution in early 1991 helps ease consumer fears both at home and abroad. The weakened dollar helps exports and hinders imports, providing some boost to domestic growth. Business investment also provides some strength, helping to offset stagnant consumption spending and continuing weakness in the housing-construction market. The net result is an economy balanced at zero growth during the first quarter of 1991.

The economy continues to improve in the second quarter with positive growth in the 2 percent range. Oil prices continue to decline slowly through this period, and inflationary pressures moderate slightly. The embargo against Iraq eventually has its desired effect, and Iraq withdraws from Kuwait before year's end.

ILLUSTRATIONS: JIM STARR

cessionary budget plans for at least the first half of 1991 are now in order."

Following are details of the strategies small-business owners are adopting to help their firms survive the recession and possibly grow more competitive for the recovery. These recommendations from a variety of experts include steps to take, conditions to expect, and even the mental attitude to adopt for coping with the downturn.

Retrench to survive, but don't cut the wrong things. As sales weaken, small-business owners should consider zero-based budgeting, says Adam Radzik, president of Business Turnaround Consultants Inc., in West Orange, N.J. "Start with zero and review all expenses, asking yourself whether each one is necessary."

"I'm anticipating a very long, cold winter," says Radzik. "Only the companies that retrench will be able to keep themselves warm."

Since labor costs account for about two-thirds of the operating expenses of most companies, cutting payrolls may be unavoidable. "If it comes to that, do so judiciously," says Eggert, *Blue Chip's* editor. "Talented, productive employees are a firm's greatest resource, during good times and bad."

Rather than gliding in for a soft landing, the economy is sinking.

—Richard Rahn

Owners also should avoid across-the-board cost cutting, says Allen Kay, chairman of Korey, Kay & Partners, a New York advertising agency. "If the lifeblood of your company is marketing, cut it less. If it is customer service, that's the last thing you want to cut back on. Cut from areas that are not essential to business growth."

Unfortunately, companies frequently pick the wrong things to cut. For example, advertising is one of the first expenses to get the budget ax during a recession. But savvy business owners know that the best time to build market share is during a downturn, when competitors are straining to make ends meet, says Kay.

"As competitors pull back, smart marketers will keep their ad budgets on an even keel, which is sufficient to bring increased attention to their products," says Kay. "It costs less to build market share during a downturn, and it carries over when the recovery arrives. By then, companies that lost market share will be forced to spend a lot more to buy it back."

While small companies can't spend as much on advertising as their larger competitors, advertising doesn't have to be the most expensive to work the best. Approach your ad campaign with the goal of "making less money work like more money," says Kay. Keep in mind that in a recession, consumers are more value-conscious. Cater to your customers by offering more for their money, whether it's additional service or a higher-quality product.

How Readers View The Economy

The small-business owners who answered the "Where I Stand" economic-outlook survey in the October issue of *Nation's Business* are not optimistic about the economy's prospects for 1991, but they remain upbeat about their own companies.

The number of those who expect to add employees is more than double the number who expect to impose layoffs. A similar pattern holds on prospects for improved sales. Nearly half expect interest rates to go up, but only one in four plans to cut capital expenditures.

The following results are based on 1,497 responses, 86 percent of which came from companies with fewer than 100 employees.

1. How long do you think the current economic downturn will last?

26.4% Six months
31.3% One year
42.3% Longer than one year

2. What plans do you have for your work force in 1991?

29.0% Add employees
12.7% Lay off employees
58.3% No change

3. What are your company's plans for capital expenditures?

29.4% Increase
26.8% Reduce
43.8% No change

4. What do you anticipate for your company's sales during 1991?

56.5% Increase
23.1% Decrease
20.4% No change

5. What do you expect will happen to interest rates in 1991?

48.2% Increase
31.9% Decrease
19.9% No change

6. How would you characterize your 1991 business outlook?

62.8% Optimistic
37.2% Pessimistic

Have a sound business plan as a basis for loan applications. Don't wait until the last minute to ask for help in solving financial problems that threaten the company's survival.

Don't be a victim of change. Take control, and make things happen.

—Dianne C. Mayfield

The biggest threat to small companies—in good times or bad—is lack of financing, says Gene Fairbrother, who runs a telephone answer line for members of the National Association of the Self-Employed. The association, based in Dallas, represents 275,000 business owners, most of whom employ fewer than 10 people.

Fairbrother, a Dallas business consultant, says the economic slowdown has caused small-company owners to be more concerned than usual about getting the money they need to stay afloat. His advice: Don't go for a loan until you have prepared a business plan.

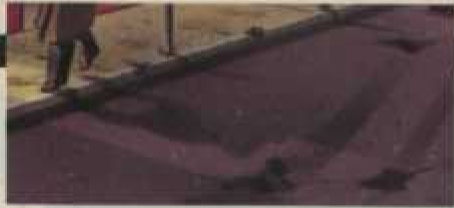
Five years ago, most small-business owners could secure a loan on the strength of their signature, says Fairbrother.

Not anymore. Most banks and other lending institutions today demand to see a business plan before handing over any money.

The plan doesn't have to be a lengthy document prepared at great expense. "It can be 10 pages long," says Fairbrother. "The important thing is that it forces the owner to focus on the business."

Banks are most interested in the plan's financial section, Fairbrother says, and they prefer to see numbers prepared by an accountant as part of a business plan offered in support of a loan application.

"It has always been tough for a small business to find money," he says, "and it's getting tougher."



1991 Small Business Outlook

Get tough with overdue accounts. Cash-flow problems rank just after outside financing as a major threat to small-business survival. Leonard Sklar, a San Mateo, Calif., collections consultant and author of *The Check Is Not In The Mail*, says that many small companies founder because they don't know how to collect overdue bills.

"In a recession, customers slow up on paying for their supplies," says Paul Mignini Jr., president of the National Association of Credit Management, based in Columbia, Md. The association, which represents 40,000 manufacturers, wholesalers, and distributors, issues a quarterly index of days that bills remain outstanding. That index began to move upward last spring, Mignini says, and he expects the upward trend to continue—a sure sign of a slumping economy.

Postwar Recession Track Records

	Duration In Months	Depth*	Top Jobless Rate
1953-54	10	-3.0%	6.1%
1957-58	8	-3.5	7.5
1960-61	10	-1.0	7.1
1969-70	11	-1.1	6.1
1973-75	16	-4.3	9.0
1980	6	-2.4	7.8
1981-82	16	-3.4	10.8
Average	11	-2.7	7.8

*GNP at annual rate, adjusted for inflation

Source: *The Wall Street Journal*

Sklar recommends several measures to control the problem of past-due accounts:

Soon after a bill becomes overdue, for example, telephone the customer and ask for payment.

"When you get on the phone, ask for payment in full," says Sklar. "A lot of business owners will ask for just some token payment on the account, and that's all they get."

Although a personal call "is about 10 times more productive than a letter," Sklar says, most owners don't like to make such calls because "they get a million different excuses for late payments, and they don't know how to respond."

Businesses hold on to bad debts far too long—an average of nine to 10 months—before writing them off, Sklar adds. Only 20 percent of accounts overdue by nine months or more are ever collected. He recommends resolving an account's status within four months.

"It's very important to bite the bullet after about four months and, in most cases, either write off the bad debt, take the creditor to court, or turn the account over to a collection agency. Hanging on longer is an exercise in needless stress."

One way to clear the books of mounting bad debt is to announce an amnesty. Tell your delinquent customers that they can cut, for example, 30 percent from what they owe and settle their accounts in full if they pay up before a specified deadline. Once the deadline passes, the amnesty deal is off.

Mignini has an additional idea. Submit the overdue account to binding arbitration. That way, you eliminate the potentially high cost of court proceedings and get a settlement far faster than you would by waiting for a trial date. "We are promoting the idea of arbitration among our members," says Mignini. "We are advising them to put the appropriate language into contracts whereby both parties agree to arbitration if a problem arises."

Business Failures On The Increase

*Percentage increases, January-August 1990 compared with same months of 1989

STATE	PERCENT OF INCREASE
Massachusetts	261
Rhode Island	163
New Hampshire	162
Maryland	160
Connecticut	154
District of Columbia	131
South Carolina	129
New Jersey	117
Minnesota	89
New York	70

Source: Dun & Bradstreet

Call in lawyers as a last resort. When small-business owners do resort to legal action to collect bad debts, their lawyers often find that lax credit policies make their jobs more difficult, says David C. Driscoll Jr., a law partner in the Rockville, Md., firm of Stein, Sperling, Bennett, DeJong, Driscoll, Greenfeig & Metro.

"One of the big problems we have had with filing suit for debt collection is that businesses open accounts without knowing whom they are dealing with," says Driscoll. "Is it a corporation, a partnership, or a sole proprietorship?"

Learn the identities of the CEO, the managing partner, and the general partners, he adds. Business owners must take the time to obtain good, solid credit information before opening an account. They also should require bank references.

"You may drive some business away by requiring all this information," Driscoll says, "but it is a sad day when a business owner comes to me with a $10,000 bad-debt claim and he doesn't have any information on the people he has been dealing with."

Driscoll recommends that credit agreements include a personal guarantee from the business owner to back up corporate or partnership obligations. This is especially important when dealing with a new company. "A newly formed business has no track record and no established references," says Driscoll. "If you are willing to deal with that business without a personal guarantee, you are agreeing to be the bank on a potentially bad loan."

Credit agreements also should state all the terms you want to enforce if the account goes bad, such as interest charges and attorneys' fees. In general, failure to stipulate these things in the contract means they cannot be added later when a problem arises.

The size of a bad debt determines where it will end up in the court system, says Driscoll. In Maryland, for example, debts under $2,500 go to small-claims court, where the business owners may present their cases without a lawyer.

"It's not cost-effective to re-

tain a lawyer for a case under $2,500," he says. Claims from $2,500 to $10,000 go to district court. Larger claims go to circuit court, where crowded dockets usually mean that trial dates are set months after the case is filed.

Don't panic; recessions are manageable. For many owners of small companies, a recession is uncharted territory. The economic expansion that began in November 1982 created thousands of new businesses that have never had to cope with a downturn. The decisions these owners make in the months ahead could make or break their companies.

Weathering a recession hinges on attitude and money, and "probably the most important is preparing psychologically," says Dianne C. Mayfield, an Alexandria, Va., lawyer and co-founder of the Venture Services Group, a consulting firm.

Many small-company owners facing their first recession are overcome by fear of failure, Mayfield says. Fear clouds judgment and impedes effective planning.

"You have to overcome the fear of seeing your business disappear," says Mayfield.

First, stop worrying. It's debilitating. Conquer needless worrying by taking the following steps: Ask yourself what would be the worst that could happen to your business; prepare to accept the worst; then calmly plan to make sure the worst never happens.

Fear aside, look for the positive things that can come out of a period of economic uncertainty.

"In a time of crisis, look for new opportunities, maybe even in a different line of business," Mayfield advises. "Don't be a victim of change. Take control, and make things happen."

By the time the recession begins to relax its grip on the economy later this year, small businesses will have learned many valuable survival skills. But none will be more important than the renewed faith they will have in their own resilience.

Once the recovery begins, small companies will lead the way, says Bill Witcher, president of the National Association for the Self-Employed.

Says Witcher: "Small-business owners may get knocked down by the recession, but they will be determined to see how high they can rebound." NB

To order reprints of this article, see Page 73.

The Federal Impact On Business

1991 Small Business Outlook

By Mary McElveen

Business is increasingly apprehensive about the likely impact of federal domestic policies on the economy in the coming year.

The big question is whether the White House and Congress will continue the anti-business trend of the past year or accept the pro-growth policies that business is offering as the way to turn the economy around.

Government actions that generated serious business concern reached their peak in the final days of the 101st Congress, when lawmakers passed the largest tax increase in U.S. history—nearly $140 billion over five years.

The end of 1990 also saw enactment of a clean-air bill that will add a massive web of regulations to existing rules, raising business compliance costs by $25 billion to $55 billion a year.

President Bush signed the budget bill—including the tax increase—Nov. 5 and the clean-air bill Nov. 15.

The 101st Congress and the president also collaborated to enact laws raising the federal minimum wage, increasing business penalties for violations of the Occupational Safety and Health Act, increasing the regulation of employer-financed pension funds, restricting the development of new sources of energy, and requiring businesses to make costly revisions to their facilities to accommodate the disabled.

Business representatives argued that higher costs imposed by such government intrusions in the marketplace would keep many firms from expanding or even surviving and therefore would undermine economic opportunities without achieving the announced goals.

In addition to enacting many laws that will intensify the economic downturn by increasing employers' costs and forcing prices up, lawmakers failed to act on many critical measures to remove roadblocks to a healthy economy. Issues left unresolved included a meaningful reduction in the capital-gains tax rate, product-liability reform, reform of the small-business health-insurance market, and overhaul of the Racketeer Influenced and Corrupt Organizations Act. That law, known as RICO, was intended to help fight organized crime but has been used in recent years as a weapon against legitimate companies.

Congress also declined to pass two budget-reform measures that business considers vital to spending discipline—a constitutional amendment requiring a balanced budget while limiting congressional authority to raise taxes, and either an amendment or legislation that would give the president authority to reject individual items in massive spending measures, which he must now either accept or reject in their entirety.

Unfortunately, the legislative outlook for business is hardly brighter for 1991. In fact, business faces a potentially bigger financial hit this year than it took from Washington in 1990.

A key element in the new debate is already emerging: the Democratic political strategy based on the so-called fairness issue. The heart of this argument is the claim that upper-income taxpayers and businesses do not pay their fair share of taxes and should be the target of any new tax hikes.

House Majority Leader Richard A. Gephardt, D-Mo., has already vowed to seek a surtax on millionaires soon after the new Congress convenes this month. He and his party's strategists view the "millionaire's tax" as a sure-fire way to gain grass-roots political support. Business is alarmed that such a move could lead to a new round of broad tax increases that would further dampen prospects of economic recovery.

Of particular concern are reports that the Office of Management and Budget is looking at ways to shift more of the tax burden for federal programs to business and upper-income taxpayers in the administration's fiscal 1992 budget, which is being prepared for submission to Congress in early February.

PHOTO: BRAD MARKEL—GAMMA-LIAISON

Watching President Bush *sign the new clean-air bill Nov. 15 were, from left, EPA Administrator William K. Reilly, Energy Secretary James D. Watkins, and Vice President Dan Quayle.*

David A. Berenson, national director of tax policy for the accounting firm of Ernst & Young, says that new taxes will surely be back on the table this year because "Congress has dealt with only about 10 percent of the deficit problem for 1991." He says that "the prime candidates for new revenues have to be the corporations. There's less taxpayer squealing that way."

One new business cost already set to take effect this year is the second step of the two-step minimum-wage increase passed by the 101st Congress. On April 1, the hourly rate will rise to $4.25 from $3.85. Last April, the rate rose to $3.85 from $3.35.

And the higher costs being imposed

on business come at the same time as a postal rate hike, tentatively set to take effect in early February and expected to average 19 percent.

Certain tax hikes enacted in November 1990 will also affect many employers, particularly many smaller businesses that pay at individual rates. (See "The New Tax Law's Impact," in the December issue of *Nation's Business*, Page 41.)

All businesses with employees making more than $51,300 a year face higher payroll taxes beginning Jan. 1, when wages subject to Social Security taxes will rise to $53,400 from $51,300.

In addition, wages subject to the Medicare portion of the payroll tax will rise to $125,000.

The tax rates will remain the same as in 1990—6.2 percent for Social Security and 1.45 percent for Medicare, for a combined payroll tax rate of 7.65 percent. Both employers and employees pay payroll taxes at that rate.

While many congressional staff members say it is too early to predict what form tax proposals might take in the new Congress, several economists and tax-policy experts in the private sector believe the writing is already on the wall.

The budget law's deficit-reduction plan for 1991 totals about $40 billion—$20 billion in tax increases plus $20 billion in reductions in projected spending increases. The Office of Management and Budget's latest unofficial projection of the deficit for fiscal 1991, made since the new budget law was enacted in November, is $255 billion. However, many private-sector economists believe it will reach well over $300 billion.

Says Richard Rahn, vice president and chief economist of the U.S. Chamber of Commerce: "Spending increases will set a record in 1991, as will the size of the deficit. Growth in federal spending—excluding defense, deposit insurance, net interest payments, and Social Security—is scheduled to increase over five years by $177 billion more than it would if the increase were limited to the rate of inflation."

Lawrence Kudlow, chief economist for the brokerage firm of Bear, Stearns & Co. Inc., in New York, says, "It is very clear to me that income taxes will be raised to finance this expanded domestic discretionary spending."

Kudlow, who was associate director of the Office of Management and Budget during President Reagan's first term, told trade-association executives at the U.S. Chamber that he "found little in the way of permanent spending restraint" in the recently enacted budget law. He also said that Congress had missed a "tremendous opportunity" to stimulate the slowing economy through "clear spending restraint and tax cuts."

James Miller III, budget director for three years under Reagan and now chairman of the board of Citizens for a Sound Economy, was even more pessimistic about the tax outlook as a result of the new budget law. Appearing on "It's Your Business," the weekly public-affairs television program produced by the U.S. Chamber, Miller called the budget plan's purported $490 billion savings in projected spending over five years "pie in the sky." Said Miller: "What you'll get is a big tax increase, a big increase in spending, and only promises [for spending cuts] that will not be kept."


PHOTO: BARBARA LAING—BLACK STAR

Domestic oil exploration *came under new restrictions in the 101st Congress.*

One reason for the pessimism is the optimism of the economic assumptions Congress and the administration used in developing their five-year deficit-reduction plan. The plan assumes, for instance, that the gross national product will grow at an average annual rate of 3.8 percent from 1992 through 1995. As the previous article in this cover package reports, private-sector economists are nearly unanimous in projecting substantially lower growth, which would translate into substantially lower federal revenues and result in deficits even higher than the astronomical assumptions of the so-called deficit-reduction package.

What's more, few budget and political analysts believe that the massive tax increase recently signed into law will quench Congress' thirst for more revenue despite signs that voters are getting fed up with federal and state lawmakers' tendencies to tax and spend.

While voters nationwide rejected a variety of spending proposals and candidates—particularly at the state level—associated with tax increases on Nov. 6, they nevertheless returned to office 96 percent of the senators and representatives who sought re-election. One incumbent who experienced a close call was Sen. Bill Bradley, D-N.J., who became the target of voter anger against massive tax increases imposed by the state's Democratic governor, James Florio, and the Democratic-controlled legislature. Florio and the lawmakers were not on the ballot.

While mounting deficits are expected to generate pressure for additional tax increases, the anti-tax sentiment displayed by voters in November could well be a factor in the approach that many lawmakers take to the issue.

And if President Bush stands by his recent pledge to veto any additional tax hikes beyond those he supported in the current federal budget, he could help business in its fight to reverse the tax-and-spend momentum.

Kudlow, who believes tax increases will be considered in 1991, said political action and strong economic analyses by

1991 Small Business Outlook

the business community will be essential after Congress convenes in 1991 to keep the tax-and-spend momentum from growing. He said lawmakers are likely to increase government spending to counter the economic slowdown and to consider tax hikes to reduce a sure-to-be-swelling deficit.

According to Miller, when lawmakers return to Washington and begin receiving preliminary economic reports on the fourth quarter of 1990, they're "suddenly going to panic. They're going to see a recession. . . . and you'll see the worst kinds of proposals that have come down the pike in Congress to get us out of the recession. The real challenge will be to stave those off."

Norman Ornstein, a political analyst with the American Enterprise Institute, a public-policy research organization in Washington, says: "We're going to need in the midst of a recession a stimulus package . . . that will provide for the unemployed and for jobs and the like. And under the new budget rules . . . you can't have a new package of spending without something that compensates in terms of taxes."

Rep. Bill Frenzel, R-Minn., who did not seek re-election after 20 years in Congress, says the new "pay-as-you-go" spending rules will ultimately push Congress to reconsider employer mandates, particularly in the area of entitlement spending for such programs as Medicare and Social Security. However, Frenzel is relatively optimistic about the short term. He thinks it will be 1993 before lawmakers will be willing to put up with the political heat of considering tax hikes again.


PHOTO: TERRY ASHE—FOLIO, INC.

Key players *on tax issues included Democrats Bradley and Gephardt.*

A member of the Budget and the Ways and Means committees, Frenzel told the U.S. Chamber of Commerce's board of directors, "I think Congress and the president are going to be serious about this [new budget law] for two years."

Pamela J. Pecarich, director of tax policy for the accounting firm of Coopers & Lybrand, in Washington, agrees, although she believes there will be a "miscellaneous revenue bill" in 1991. Such a bill will be needed, she says, for technical corrections to the recently enacted budget law and for further extensions of several popular tax breaks for business that the new law extends only through December 1991.

Stanley Collender, director of federal budget policy for the accounting firm of Price Waterhouse, in Washington, thinks Congress will essentially do "nothing" next year on the tax front. "To the world at large, it will look like the U.S. has its act together because there won't be a six-month debate" over the budget as there was in 1990.

The more pessimistic analysts believe Congress will search initially for new revenues that will affect their individual constituents least directly, such as new taxes on business.

Ernst & Young's Berenson believes there will be renewed efforts to limit corporate deductions, such as the 100 percent deduction allowed for advertising expenses; to increase the corporate alternative minimum tax (AMT) rate of 20 percent; and to boost the basic 34-percent corporate income-tax rate. He also expects Congress to consider inceases in individual rates.

Thomas P. Brock, president of the accounting firm of Brock, Buchholz & Stow, in Longmont, Colo., and chairman of the U.S. Chamber's tax-policy committee, believes Congress will seek to raise the corporate AMT and also eliminate the caps on the amount of wages subject to the Medicare and Social Security payroll taxes. Other potential areas for changes, he says, are the accounting

The Right Way To Write To Members Of Congress

As the article beginning on Page 23 points out, the new Congress will be considering many issues of critical importance to small business.

You might want to tell your own members of Congress and other lawmakers in key positions how you feel about these measures. If so, remember that some communications are more effective than others.

These guidelines from the Congressional Relations Division of the U.S. Chamber of Commerce show what you should do—and not do—in writing to members of Congress:

- Identify clearly the subject or title of the legislation in which you are interested, not just bill numbers.
- State why you are personally concerned about the issue.
- Put your thoughts in your own words. Avoid standard phrases and cliches. Members of Congress may view a large number of identical letters as the result of organized pressure.
- Remember that you will generally have more influence as a constituent writing to your own senators and representative than you would have with other members of Congress.
- Determine the committee assignments of your senators and representatives. They have much more influence over legislation that is pending in their committees. You should communicate while legislation is being considered in committee as well as when it is up for a final vote.
- Never threaten political reprisals. Present the best arguments for your position, and ask for their consideration.
- If you are a spokesperson for a particular group, make that fact clear in your letter.
- Don't try to become a "pen pal" of a congressional office. Some offices don't even bother to count mail from seemingly tireless letter-writing individuals.

1991 Small Business Outlook

rules for companies that hire independent contractors, increases in the taxes on foreign subsidiaries operating in the U.S., and new energy taxes.

Says Berenson: "You're witnessing the complete unraveling of the 1986 tax act," which reduced tax rates but broadened the tax base, largely by eliminating deductions and tax loopholes. "Everything is primed now for rate increases," he says, "although I also think you'll see more back-door changes, like further limiting of deductions."

Robert Ragland, chief tax counsel for the National Chamber Foundation, a research affiliate of the U.S. Chamber, agrees that rate hikes are likely, but he says that Congress will also consider taxing employee benefits, a notion that was floated last year by some members of Congress and by Health and Human Services Secretary Louis W. Sullivan.

Most political analysts agree that the state of the economy, the military buildup in the Persian Gulf, and politics will shape the congressional agenda in 1991. No matter how the new session develops, however, major issues that business successfully sidelined in 1990 are expected to be back in 1991, including mandated health benefits, mandated parental leave, and an employment-related civil-rights bill.

PHOTO: T. MICHAEL KEZA

Firms hiring *minimum-wage workers face another wage hike in April.*

Senate Majority Leader George J. Mitchell, D-Maine, has said he will make health care a priority. Last year he made clean-air legislation—an equally complicated undertaking that is now law—a priority.

With health-care costs nationwide continuing to soar and with the administration expected to complete its comprehensive review of the nation's health-care system this year, the health-care debate is almost certain to reach a higher crescendo as 1991 unfolds. In addition, Rep. Henry A. Waxman, D-Calif., a chief proponent of mandated health benefits, is expected to have more time to devote to the issue in 1991. Last year he concentrated on the clean-air bill.

On the labor front, the AFL-CIO has said it will push for reform of the Occupational Safety and Health Act and for a bill that was introduced in the last Congress to prohibit companies from permanently replacing striking workers.

Also expected to receive considerable attention are financial issues. Legislation to continue the financing of the savings and loan bailout is needed by February for the bailout to continue. And reform of the financial-services industry and the deposit-insurance system, which will affect in some way virtually every business, is also due for consideration.

In the environmental area, lawmakers are expected to devote attention to reauthorization of solid-waste laws, technical corrections to the new clean-air law, and indoor-air quality.

Clearly, congressional action in 1991 will take place in a political context as the Democrats work to regain the White House in 1992 and Bush works to regain the high public approval rating he had before the protracted 1990 budget debate.

But while some analysts believe the 102nd Congress will be inclined more toward partisan bickering than legislative action, business people are wary. The lawmakers' self-awarded pay raise takes effect this month, and they may be eager to justify the increases by producing a heavy load of legislation. ■

Family Business

The fastest route to the top for women; strains between founder and successor; a father who regrets his indecisiveness.

COMMENTARY

A Good Time To Be A Woman

By Sharon Nelton

When *Savvy Woman* magazine published its "Savvy Sixty" list of America's leading women business owners in November, one thing struck me immediately: Listed for the first time and in fifth place, with $629 million in annual revenues, was Minyard Food Stores, a Texas chain run by sisters Gretchen Minyard and Liz Minyard Williams.

Scanning the rest of the list, I could see that a dozen or more were family-owned or family-controlled businesses now run by women. The $1.4-billion-a-year Washington Post Co. was on the list, of course, but so too were firms such as Tootsie Roll Industries, Inc., the $179-million-a-year Chicago candy manufacturer, and The Echo Design Group, a $40-million New York clothing-accessories company.

PHOTO: TING CHIAO

More and more talented women are getting the chance to run the family store.

—Sharon Nelton

More and more talented women are getting the chance to run the family store. But still not enough. That's what makes the current *Family Business Review*, a special issue devoted to women, so timely. Says guest editor Matilde Salganicoff, a Philadelphia family-business consultant: "A family firm cannot afford to overlook half of its potential talent, thereby risking continuity and growth."

One theme of the issue is that women in family firms are a valuable but mostly unrecognized resource. One article calls attention to the "invisibility" of women in many family businesses, where women fulfill important but unacknowledged roles. Another suggests that if women are to become visible, the whole family must be committed to accepting new roles for both male and female members.

A powerful example of such acceptance is an article called "My Daughter, the Successor," in which a father describes how he brought his daughter into the family manufacturing firm and, with the commitment and help of his partner/brother, has been preparing her for leadership. This daughter is fortunate to have both a father and an uncle willing to give her a shot at the top.

It is by starting their own businesses or succeeding to leadership in family firms that women find the fastest route to the top these days. But it is especially through family-business succession that women business owners are breaking out of their traditional concentration in the service and retail industries. The family firms on the Savvy Sixty list, for example, show women in manufacturing, machinery distribution, and meat packing. "We're processing 8,000 hogs a day," says Annabelle Fetterman, chief of Lundy Packing Co., a Clinton, N.C., family company with $244 million in sales in 1989.

It's an exciting and promising time to be a woman in a family firm, and the family businesses smart enough to welcome women and move them up stand to gain from their contributions.

Today's creative companies want "holistic" managers who are sensitive, listen to others, and know how to encourage employee participation, says Salganicoff. "Women," she adds, "have been learning to do all these things since childhood."

Family Business Review, *the quarterly journal of the Family Firm Institute, is available to individual subscribers for $48 a year from Jossey-Bass Inc., Publishers; (415) 433-1767.*

PLANNING

Chief's Toughest Job: Teacher

By Craig E. Aronoff and John L. Ward

If a business is to survive, someone must be prepared to carry it on. That simple truth pervades all management. After all, the manager's ultimate job is to develop his or her successor.

Management succession is especially critical in a family business. While entrepreneurs play many roles in their careers, none is more crucial or more difficult than that of teacher. And none is more important to the business's survival in the family.

Successful business owners get that way by doing many things well. They are great innovators and builders. They have incredible energy and resilience. Unfortunately, they are often lousy teachers, coaches, and counselors—especially of their own mature children.

It has been said that most self-made men are smart enough to employ college professors to train their sons. Indeed, we strongly recommend that entrepreneurs use both professors and nonfamily managers to guide significant aspects of a next-generation executive's development. The owner may delegate some—though certainly not all—of the teacher's duties, but they cannot be postponed indefinitely if the owner hopes for a smooth transition.

It is not surprising that entrepreneurs shun the responsibility of teaching. Entrepreneurs are usually ill-suited and ill-prepared for the teaching role. The personality required to start and grow a business eventually works against its continuity. Entrepreneurs are *doers* who do not see themselves as teachers. They are impatient. They take action, set and achieve goals, and control outcomes.

But teaching does not work that way. The art of teaching is the art of assisting discovery. It is patient. It demands activity by the student more than by the teacher. It requires letting go rather than control, standing aside rather than wading in.

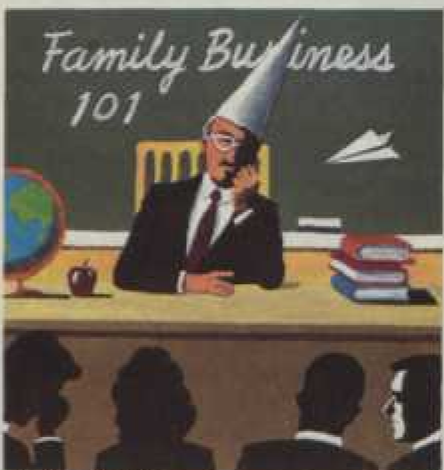
Perplexed by this dilemma, one entrepreneur put it to us this way: "I need to

feel I'm always accomplishing something. I need to see the concrete results of my labors. How do you know you're contributing if all you're doing is giving advice or responding to questions?"

His question reveals yet another difficulty of the teaching role. In the later stages of the entrepreneur's career, self-doubt and fear may grow. Reasserting one's value to the organization may lead to furious action.

Many founders cannot resist the temptation to spend their last years noticing things that are not yet perfect in their businesses and directing others to fix them. No one sees more that needs "fixing" than the entrepreneur who built the business and knows its every detail. The owner may even rationalize that he or she is meeting the responsibility to teach by being an excellent role model.

In reality, the opposite is true. Rather



than putting the organization in the best shape for transition to new leadership, the owner may be undermining his or her future and destroying relations with the successor.

Eventually the business builder must recognize that he or she won't be around to attend to these problems. Sooner or later the owner must trust that the successor will do the job—and do it well.

In the meantime, by publicly pointing out problems and telling others to take action, the owner weakens the successor, shows to all in the company a lack of faith and respect in the successor's management capability, and raises doubt about the future.

Some entrepreneurs work hard to bite their tongues. They realize the consequences of taking personal action and circumventing a successor. But concerns over the business's imperfections build inside such entrepreneurs. At the first opportunity—perhaps when the successor approaches the entrepreneur for advice or, more likely, for reinforcement on a decision made—the founder deluges the successor with observations and recommendations.

As a result, the successor increasingly attempts to avoid the founder. The successor and the rest of the organization feel that the founder doesn't respect their abilities.

The founder in turn concludes that the successor lacks respect for the founder's experience. The founder may decide that the successor has character flaws or inadequate abilities. A cycle of vigilance and declining mutual respect sets in.

As the relationship between founder and successor disintegrates, the organization suffers. A power struggle ensues in which even in winning, the entrepreneur loses. What a sad final chapter in the career of a person who deserves nothing but honor and respect. The founder built a business but can't pass it on—at least, not smoothly.

We make several suggestions to founders—teaching techniques if you will—to help overcome this inherent problem in family firms:

- When you see a problem, don't tell others to fix it; wait for a private time to discuss it with your successor. Let him or her take action.
- Establish a regular meeting schedule to discuss problems with your successor.
- At other times, when your successor asks a question or shares a thought, respond only to the subject that has been raised. Don't dredge up other issues that you want to discuss. Save them for the regular meeting.
- Keep in mind that teachers—and great leaders—are known more by the success of their followers than by what they do themselves.

To successors: Be patient. Recognize how difficult it is for an entrepreneur to be a good teacher.

To founders: Take joy in knowing that the greatest gift you can leave your successor is your trust and respect.

You'll know how good a teacher you are by how often your successor seeks your counsel. Make that the action and achievement you seek.

John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago. Craig E. Aronoff holds the Chair of Private Enterprise at Kennesaw State College in Marietta, Ga. Both are family-business consultants.

Mark Your Calendar

Jan. 25, Chicago

First in a series of seminars of the new Loyola University Chicago Family Business Program, an ongoing forum aimed at companies with at least $10 million in annual sales and more than 100 employees. Contact Drew Mendoza at (312) 604-5005, or write to the Loyola University Chicago Family Business Program, P.O. Box 257608, Chicago, Ill. 60625-7608.

"Dynamic Consulting: When Your Client Is a Family," a seminar for experienced professionals—such as senior managers, consultants, attorneys, accountants, and financial advisers—who work with family businesses. The session is led by psychologist Kenneth Kaye, a member of the faculty of the Family Institute of Chicago. Write or call Vicky Pizzirulli, Family Matters, 4747 West Peterson Ave., Suite 104, Chicago, Ill. 60646; (312) 685-0295.

Feb. 9, New York

"Hiring the Best/Keeping the Best," a one-day seminar sponsored by the New York University Family Enterprise Project. Write or call LaVaun Eustice, Assistant Director, Management Institute, New York University, 48 Cooper Square, Room 108, New York, N.Y. 10003; (212) 998-7215.

Feb. 10-14, Philadelphia

"The Next Generation of Family Members in Family-Held Businesses," a seminar for young adult family members and their spouses. Contact the Division of Family Business Studies, Sol C. Snider Entrepreneurial Center, The Wharton School, University of Pennsylvania, 426 Vance Hall, 3733 Spruce St., Philadelphia, Pa. 19104; (215) 898-4470.

How To Get Listed

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CASE STUDY

A Father Unable To Take Action

Dick Symanski, 55, owns a construction company in the Northeast. Despite the slowed economy in his part of the country, Dick has been able to maintain his company's substantial profitability as a result of selective bidding, minimal debt, and other good management techniques.

Even though his business is very successful, Dick is completely at a loss over what to do about two sons in the business. Alan and Harry, both in their mid-30s, have each begun to press their father for an opportunity to lead the company. But Dick has taken no action, and his sons have begun to believe that he has no appreciation for their contribution to the success of the company. They also see Dick as passive and indecisive, qualities they resent.

While Alan and Harry have both demonstrated solid technical expertise over the years, their management skills have been untested. Dick is just not sure what their leadership capabilities are. But more than that, they are the children from his first marriage—to a woman whose alcohol abuse left scars on Dick and his entire family.


ILLUSTRATION: DAVID CHEN

While Dick is happily remarried, children from the second marriage are beginning to push for roles in the company. Dick is afraid that giving Alan and Harry stronger roles will result in anxiety in his new family. But he's just as sure that not doing so will escalate the tension between Dick and his older sons as well as reopen wounds from the first marriage.

Dick regrets his inability to act—it reminds him of his frustration with his own father, who seemed equally indecisive when Dick worked for him in another business. Dick wants to please everyone and avoid a further split in the family. But can he?


PHOTO: STEVE WOIT

Try To Understand Family Influences

Thomas M. Hubler, president of Hubler Family Business Consultants, in Minneapolis:

Family influences often cloud an otherwise straightforward process of leadership selection and development. In order to address the management-selection issues in his business, Dick needs to understand the impact of his family on the process of succession. At the same time, he must begin to "professionalize" the company, both for the sake of the children and for the continuity of the business. Dick should begin to explore, perhaps with the help of a therapist, the history of his own relationship with his father. By understanding its impact on him and gaining the ability to honor his own love for his father, Dick will find that he is more able to deal objectively and realistically with Alan and Harry and the demands they are making on him.

The Symanskis also need to understand the negative effect that the first wife's alcoholism still has on the family. Through reading about the impact of alcohol on families, family therapy, and participation in Alanon, a national organization for relatives of alcoholics, Dick and his sons will begin to see how alcoholism has impeded their closeness. Such understanding should increase their ability to express feelings and communicate effectively and should help dispel Dick's fears of a family split.

Finally, the family should adopt rules governing members' participation in the business. A program of career development should be instituted for Alan, Harry, and the younger children so that they are prepared to offer their best to the business and so that it becomes apparent when the strongest candidate for the next generation of leadership emerges. Such an approach will help alleviate the emotions surrounding succession and turn the final choice into a solid business decision.


PHOTO: CARL DAVAZ

It's Time To Take A Giant Step

Paul Frishkoff, professor of business administration at the University of Oregon and partner in Leadership in Family Enterprise, a Eugene, Ore., consulting practice:

Unlike some legendary command-control tycoons in the construction industry, Dick is an "analyzer." He is thorough and cautious, craving data before reaching a decision. (Witness the conservative balance sheet and the "sharp pencil" bidding tactics that have sustained his company.)

Analyzers *hate* being pushed to make decisions—and his sons are pushing. It is doubtful, by the way, that Dick's interactions with his own father or the difficulties of his first marriage are the causes of his "passive and indecisive" style; rather, those rifts exacerbated a tendency that Dick already had.

Dick is in a paradoxical situation. He wants to please everybody, so he ends up pleasing nobody, including himself, in the succession decision.

Further, the Symanskis are a family suffering from, and probably still unable to face, the issues surrounding the mother's alcoholism.

Dick and his sons don't trust each other at a profound level, certainly don't speak (about what really matters to them), and don't feel—or at least don't communicate about feelings.

A beginning toward a solution would be a family retreat, facilitated by a consultant or therapist with considerable expertise in dysfunctional families and in alcoholism particularly.

The mere opportunity to verbalize, in a neutral, safe setting, what each person wants (family peace, recognition, freedom to compete, and—underneath all this—love) will be a giant step toward resolving the succession issue and recreating the family.

This is one of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Cleveland business consultant Ernesto J. Poza. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the institute.

MARKETING

PR On A Shoestring

Smartly targeted public relations can be essential for your firm. Here are affordable tips for your day-to-day operations.

By Meg Whittemore

When they hear the words "public relations," owners of small companies often think of expensive, image-polishing campaigns that aren't relevant to their own business goals. Yet such notions are out of touch with the realities of carefully crafted public-relations efforts that are designed for—and sometimes by—small firms.

Good public relations can be not only affordable but also integral to achieving a company's goals. It just takes some effort to make the most of this marketing tool.

For the best results, a business owner must "understand what public relations is—and what it isn't," says David Grant, president of David M. Grant & Partners Inc., a public-relations firm in New York City. "It isn't advertising," he says. Rather, it is telling your story to the people you want to reach—namely, the news media, potential customers, and community leaders.

"It is not a haphazard, off-the-cuff type of thing you do between lunch and the next business appointment," says Betty Hoeffner, vice president of S&S Public Relations Inc., in Northbrook, Ill. "It requires regular and steady attention."

But how can business owners on shoestring budgets give such attention to public relations—how can they put some PR into their day-to-day business operations? Among the effective ways of letting people know about your business are special events and community relations. "If you, as a business owner, support your local community, so too will the community support your business," says Leslie Eicher, who runs her own PR firm, Eicher Communications, in San Diego.

Stephen Hindy has used community-related promotions to publicize The Brooklyn Brewery, which he co-founded in Brooklyn, N.Y., three years ago. When he started selling his beer in the New York area, he says, "I spent time hanging around in bars, and I noticed a lot of new bands playing original music. I thought, why not try to promote these bands, since they're sort of in the same boat I am."

The idea resulted in The Brooklyn Lager Band Search, an annual competition for bands that are not under contract. The winner gets $1,000.

"It was very low-budget," says Hindy, "but we sent out news releases, and it made the papers." This year the series was expanded to three music categories, and the semifinals were held in top clubs in New York.

A special promotion for a single product or service is another way to heighten public awareness of your business. For Alan Canfield, senior vice president of A.J. Canfield Co., an independent, family-owned soft-drink bottler in Chicago, a certain one-product promotion stands out as a major success. It took just one mention in the press for that promotion to pay off.

PHOTO: ©ALAN DOROW

Stephen Hindy *turned his home brewing hobby into an international business with the help of sharply focused public relations.*

Five years ago, Canfield says, "Diet Chocolate Fudge soda had an annual distribution rate of 60,000 cases that had stayed the same for 13 years." At the same time, the company had an ongoing public-relations plan, he says. "For months, we were talking to the media about all the good things about Canfield's, like our quality standards, our innovative technology, and the strength of our family business."

Canfield sent cans of Diet Chocolate Fudge soda to business and food editors at newspapers and national magazines and to disc jockeys. The response was ho-hum.

Then a Chicago newspaper writer—who happened to be dieting at the time—mentioned the soda in his nationally syndicated column. He said it tasted like "biting into a hot fudge sundae." Within 24 hours, the company's phones started ringing with orders from all over the country.

To keep the momentum going, Canfield sent T-shirts and a dark-brown felt-tipped pen with fudge-scented ink to the same names on the media list, along with a copy of the syndicated newspaper column. The press ate it up. Journalists and radio celebrities all over the country mentioned the product, and sales increased to more than 100 times the normal distribution.

"The story on Diet Chocolate Fudge didn't just happen," says Canfield. "All the grass-roots public-relations work had been done months and months before, and something good, something measurable, came out of it."

Public-relations experts agree that it is important to know your business story and to be able to tell it. Being open

and approachable and "talking to the people" are the most effective ways to reach customers, says Canfield. "If I am honest, tell the facts, and respect the listener, then it is very believable."

Says Brooklyn Brewery's Hindy: "At every stage of our development—from putting our business plan together, to raising money, to when we first sold beer, to now—we have tried to focus our story very clearly. We always tried to present the human side of what we are doing and why we are doing it."

Giving the press access to a company representative is important, says Hindy. "A lot of business people tend to be defensive and nervous around reporters. You can't manipulate a journalist. If you try, you will only hurt yourself."

Hindy, a journalist for more than 15 years, became interested in brewing while assigned to Beirut as a reporter. "Diplomats brewed their own beer in Islamic countries where beer sales are prohibited," he says, "and the stuff actually tasted good." After he returned to the U.S., Hindy took up home brewing as a hobby. His neighbor and eventual partner, Tom Potter, a former banker, decided to join him in the business venture.

Hindy does not need a public-relations professional to tell him that favorable media coverage of his company can go a long way toward reaching the audience he wants. From his days as a reporter, he says, he knows that one way to get people to look at you is to stand out in a crowd.

"We faced that problem in Japan," says Hindy, where the bigger American breweries dominate the market. To compete, Hindy ships 100 cases of his beer to Japan by air every month "at a ridiculous expense," he says, but it gets the attention of the press in Japan as well as in the U.S.

"We got about 150 domestic and Japanese newspapers that have carried the story, and now magazines and periodicals are picking it up," Hindy says. "No one else sends beer the way we do." He adds that as a result, several reporters "have made us part of their beat." Another benefit is that the air-shipped beer sells for $12.50 per bottle in Japan. "Certain prestigious clubs will pay $135 a case to sell that special beer," he says.

Clearly The Brooklyn Brewery found a way to stand out from its international competition, making the reporters' jobs easier. "Journalists strive to tell their readers, viewers, and listeners something they didn't know yesterday," says Hoeffner, of S&S Public Relations. "The more you can help them do that, the better the chance of coverage."

Canfield says he thinks a company's relationship with its public-relations agency must be dynamic and that "you should get to work with the top people in that group." Otherwise, he says, money spent for public relations is wasted.

Although agency fees are too high for many small businesses, Canfield suggests that a company shouldn't give up easily in trying to work out an affordable public-relations plan. He suggests, for example, that "you negotiate a low, low rate with an agency with the understanding that you will pay more when you get more"—that is, more coverage, more results.

Some firms, of course, decide to try do-it-yourself PR. This is easier if the business owner has some background in public or community relations or in journalism. Consultant Eicher says business owners choosing this route should look for ways to make themselves visible in the community. They could join local clubs and organizations, for example, or offer free tickets to local events with any purchase over a set amount, or invite a local group to hold their monthly meetings in an unused portion of the business facility.

The idea, Eicher says, is "to reach people who might not ordinarily visit your business." Good word-of-mouth public relations is not only an effective way to gain publicity but also an inexpensive method of marketing.

Another inexpensive and effective community-relations tactic is to offer donations of your business product or service. "We've donated beer to lots of not-for-profit organizations, dance groups, and cultural organizations," says Brooklyn brewer Hindy. "The only danger is that you get labeled as an easy mark."

If your business does not fit into the stand-out-in-a-crowd category, however, you shouldn't force it. "The key for small businesses," says Eicher, "is to out*smart* competitors rather than try to out*spend* them." ■

To order reprints of this article, see Page 73.

For Best Impressions

Sponsoring charitable and community activities, giving free lectures or seminars, staging media events, getting articles published in a trade publication—all of these fall into the category of public relations. It is a way to establish goodwill between your organization and your target market.

If you're creative, you can come up with endless public-relations opportunities. They can be as simple as sponsoring a local softball team and printing your company's name or logo on the team's jerseys. Or, if you want to make a big impression, you can create a community-wide event—like a job fair.

For the medium-sized business with a healthy marketing budget but neither the time nor the personnel to put it to work, hiring a public-relations agency can yield desirable results. You must plan your objectives and choose your agency carefully. A big investment is at stake if you hire an agency that does not produce the results you want.

If hiring a public-relations firm to develop a marketing program and generate publicity is the way you want to go, first do some self-evaluation, advises Scott Kronick, a New York-based public-relations executive who specializes in small firms. Kronick counsels small-business owners and marketing managers to answer the following questions before they hire a PR firm:

■ What are the specific communications needs of your business or organization?

■ Do you want greater awareness for a product or service nationally or in a targeted market?

■ Who is your target consumer?

■ What is your company's objective? A typical objective, he says, is increasing sales or improving a public image.

"If your market covers the country, or is international in scope, you should look for a firm that has worked in that capacity," says Kronick.

Here are some tips:

■ Get references. Many companies hire public-relations firms on referrals from other satisfied clients.

■ Check *O'Dwyer's Directory of Public Relations Firms*, which is found in most libraries. It lists most existing public-relations firms, noting their rank, specialties, number of employees, and clients.

■ If you are really working on a shoestring, try to find a freelance public-relations professional by advertising in a newspaper's classified section. Just as with an agency, you should ask for references.

—J. Donald Weinrauch and Nancy Croft Baker

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LESSONS OF LEADERSHIP

From Riches To "Rags"—And Riches

Bugle Boy's Bill Mow has won stunning success in two radically different fields: electronics and clothing.

By Michael Barrier

For five years, starting in 1976, William C.W. Mow lived through a nightmare that most entrepreneurs could barely imagine. His enemies drove him out of a company he had founded and had led to brilliant success. He was forced to defend himself against serious charges of wrongdoing. When he started a second company, in a field new to him, it hemorrhaged money.

"Psychologically," Mow says, "it was unbelievable."

Unbelievable, too, is the turnaround in his fortunes. Today, at 54, Mow rules Bugle Boy Industries, a company with annual sales of around $500 million.

Bugle Boy is a clothing company—but its billboards and bus-shelter ads do not proclaim it as such. They typically depict pensive adolescents and contain no type except the company's name. "In the beginning," Mow says, "people didn't know what Bugle Boy was. They thought it was toilet paper or cigarettes." Even though Bugle Boy clothes are sold by more than 2,500 retailers, it was only in 1988, when Bugle Boy started making blue jeans and advertising them on television, that its name came to stand for clothing in much of the public's mind.

Bugle Boy's target audience has never been confused, though. Visit one of the 28 Bugle Boy outlet stores on a Saturday morning, and you will likely find young men (and some young women) lined up four and five deep in front of the dressing rooms, waiting to try on clothes. For a decade, Bugle Boy has satisfied their appetites for the kind of casual attire—such as washed-twill "cargo pants," heavily detailed with buttoned, snapped, and zippered pockets—that teenagers wear with the precision of a uniform.

Although young men's pants remain the core of its success, accounting for roughly half its sales, Bugle Boy has gradually added lines for men, boys, women, and girls. It once licensed another company to make young men's and boys' shirts with its label, but in 1991 it will begin making those shirts itself—a move that could easily add $200 million to its annual sales.

Since 1989, Bugle Boy has occupied a gleaming headquarters building in Simi Valley, a desert town about an hour's drive northwest of downtown Los Angeles. Visitors enter through a soaring glass-covered atrium—designed, Bill Mow says, to make department-store buyers feel at home, because it will remind them of upscale shopping malls. In Mow's own suite, he has asserted his identity as a native of China: The glass and metal give way to glowing wood and Oriental art—and, just outside his conference room, a serene garden.

PHOTO: © MARK RICHARDS-SIPA

Mow gives *his customers style and variety in clothes.*

On those rare occasions when it invites outside scrutiny, Bugle Boy exudes prosperity and efficiency. Mow doesn't have to say how profitable the company is, though—Bugle Boy is private, and he owns 90 percent of it, giving him a probable net worth of several hundred million dollars. He says he has no intention of going public. He learned, 15 years ago, the bad things that can happen when an entrepreneur gives up control of his company.

That first company was called Macrodata. Mow founded it in 1969, two years after he received a Ph.D. in electrical engineering from Purdue University and migrated west to work for Litton Industries. Computer technology was changing drastically then, thanks to miniaturization—"the ability," as Mow says, "to deposit hundreds and thousands of transistors in an area one-fourth the size of a fingernail."

Macrodata came up with techniques for testing the tiny new semiconductors.

Mow sold control of Macrodata to a Milwaukee-based conglomerate; he expected, he says, that the conglomerate would provide management support while he continued to develop the technology's promise. But, instead, the conglomerate accused him of concealing $2 million in Macrodata losses.

Mow counterattacked with a suit against the conglomerate. In 1988 he finally won exoneration (and an out-of-court settlement he puts at $850,000) in a California court. But in 1976, all he knew was that "the walls were closing in on me."

As his position at Macrodata crumbled, he needed a new business—"I had to get myself into a financial position where I could defend myself," he says—and he didn't care what it was. Electronics was out, though, because he was bound by a noncompete agreement. A light started to come on when "I met some people at the golf club who were in the apparel business," he says, and they told him that Asian clothing manufacturers and American wholesalers needed importers—go-betweens who could smooth the way between the Asian plant and the American warehouse.

With family in Taiwan, Mow was ideally positioned for such a role. He became an importer in 1976, at first handling knit shirts. But, he says, "as an importer, you're working on such a low

margin, and the risk is so high," he knew he had to find something else.

In 1977, he and a principal in a designer-jeans company started a firm called Buckaroo International. It would offer a line of casual clothes for young men, under the Bugle Boy label.

"I felt confident I could do it," Mow says, even though he knew nothing about the clothing business as such. "I felt that anybody who could invent equipment with millions of wires and hundreds of thousands of components, measuring accurately to a billionth of a second, should be able to make a pair of pants.

"How wrong I was."

Over the next few years, Mow says, Buckaroo made just about every mistake possible—offering too broad a line, pricing it too high, and introducing new garments at the wrong time of year.

By the spring of 1981, Mow had split with his original partner, and, he says, "my assets were about wiped out, and the bank was choking down on the credit line. It was a close thing for a while."

Mow had, however, been doing one important thing right: developing what he calls an "infrastructure" of foreign suppliers.

"I dug very deep into sources," he says. "I got myself a school-of-hard-knocks 'Ph.D.' in understanding every little step in composing a garment." Then, he says, he learned which countries were best at which kinds of apparel manufacturing. The result was a network of efficient, responsive suppliers.

With such a network in place, what Mow needed was a way to bring to market garments that people wanted to buy. To give him that sensitivity to consumer tastes, he turned to Vincent Nesi, who had been with the company almost from the start, as a merchandiser.

Nesi, 43, is now president of the company (and owner of the 10 percent of it that Mow doesn't own). From his conference room he sees not an Oriental garden but a busy stretch of Fifth Avenue on the edge of Manhattan's garment district. He has worked in New York from the start, out of both choice and necessity. "New York is still the center of the garment industry," he says. Sales and merchandising are under his wing, and manufacturing and finance under Mow's, although the line between the two men's responsibilities is fluid, and they see each other often.

Nesi was drawn to working with Mow in the first place because many labor-intensive clothing designs simply could not be manufactured in the U.S. "I had a very strong feeling for imports," Nesi says, "that they were going to allow a versatility and a value to be brought to the consumer."

Even though their offices were separated by a continent, Mow and Nesi spent a lot of time together in the Orient while Mow tried to get the company off the ground. Mow says they shared a passion for detail: "I was surprised that when Vinnie sketched a pant, there was an eighth of an inch on the pleat, and that's the way he wanted it."

In the spring of 1981, Mow delivered an ultimatum to Nesi: Either Nesi would become president of the company and take charge of sales and merchandising, or Mow would throw in the towel. Nesi accepted the challenge.

PHOTO: CHEVN BURKE—GAMMA LIAISON

Vincent Nesi, *Bugle Boy's president, brings to his work an eye for detail.*

Under its new corporate name, Bugle Boy Industries dropped its "collection" of relatively expensive casual clothes for young men in favor of a far more focused line—stylish but moderately priced "bottoms," as they call pants in the trade.

Within two years, Bugle Boy's new tack paid off spectacularly, in the success of what were called "parachute pants"—casual slacks made of woven nylon. Mow recalls those glory days: "The kids would go into a store, and they would buy four pairs of the same style in four different colors. When you're going through something like that for the first time, you think it is never going to end." Says Nesi: "Bill put out of business I don't know how many umbrella people, because we bought up all the nylon."

Parachute pants were a fad, though, and when the fad died, Bugle Boy had to eat a lot of that nylon.

That experience spawned Bugle Boy's current strategy, which Nesi sums up as "staying fresh on a continuous basis." Bugle Boy no longer tries to come up with a year-in, year-out bestseller; instead, it tries to produce novelty as steadily and predictably as other companies turn out the same design.

Not that Mow wants to create fads; he wants, instead, "to create a label that consumers love." To build brand loyalty, he says, "we deliver fresh product to the stores virtually every month"—that's about how often Bugle Boy introduces significant style or color changes.

"My customers will never take the same pants twice, or the same pants with the same color twice," Mow says. "That's not how they see Bugle Boy."

Thanks to Mow's overseas network—what Nesi calls "this unique production base"—the company can respond quickly to changes in consumer tastes. "When a normal lead time would be a year," Nesi says, "we've got it down to three months." Bugle Boy turned its inventory 85 times in one recent six-month period. "We may take a quick dip," Nesi says, "but it won't be for more than a quarter."

Mow constantly juggles his sources of supply, but in recent years more and more Bugle Boy clothes have come from China; that country now accounts for about 25 percent of production.

Mow himself has visited China twice in the past four years—significant journeys for a man whose father was an officer in Chiang Kai-shek's air force. (Mow's father brought his family to the U.S. when Mow was 13. Mow then became "William" when his father gave his sons American names phonetically similar to their Chinese nicknames.)

As the consummate clothier, Mow "reads" people's clothing. When he visited Beijing in 1987, he recalls, "I felt sad. I saw three colors: blue, green, and gray. You got the feeling of complete hopelessness in the mass of people."

When he visited China again last spring, almost a year after the bloodshed in Tiananmen Square, he was pleasantly surprised by what he found: "I saw drastic improvement. People were much happier; their faces showed it." Their clothing, he says, offered even stronger evidence that Tiananmen may have been only a temporary setback for his homeland: "The colors people wear tell a big story, and people were wearing colorful clothes. More colors, more makeup on the ladies—it was really like a complete transformation."

As Bill Mow knows, the right clothes can make a *big* difference. ■

FINANCE

To Use But Not To Own

In times of tight credit, it can pay to lease the business equipment you're not ready to buy.

By Jack Wynn

An axiom of smart shopping is: Never buy more than you need. That's the idea behind the leasing of equipment; what counts is the *use* of those assets, not the *ownership* of them.

The practice of leasing equipment as a way to make the most efficient use of resources—particularly in times of tight credit—is found in a variety of industries. One of the major categories of leased equipment consists of high-technology items such as computers, telecommunications equipment, and diagnostic tools. Another category is low-tech capital equipment, from office equipment and materials-handling machinery to marine cargo containers, trucks, trailers, rail cars, forklifts, and cranes.

This pragmatic approach to business has become ingrained in the construction industry. George Inman, executive vice president of Inman Construction Co. Inc., in Memphis, Tenn., says: "For companies like ours, leasing means having the advantage of using equipment only when it's needed and not having to worry about the costs of ownership, like financing, maintaining, and storing expensive construction equipment year-round."

About 80 percent of major U.S. companies use leasing as a financial tool, according to the American Association of Equipment Lessors, in Arlington, Va. The percentage is doubtless at least that high in the construction industry.

When the figures are complete for 1990, according to the Commerce Department, the value of equipment leased will top $130 billion, up from $125 billion in 1989 and triple the $43 billion figure of 1980. Much of the increase has been driven by construction. "This level of growth—about 7 percent annually—should continue as the cost of new construction equipment continues to rise," says John Olmstead, vice president of Capital Associates, Inc. (CAI), based in Lakewood, Colo. As one of the nation's largest independent leasing companies, Capital Associates manages an equipment portfolio of nearly $2 billion.

Jack Wynn is a Washington, D.C., business writer specializing in technology and finance.

The need to rebuild the nation's infrastructure in the 1990s is expected to continue fueling the construction industry's appetite for heavy-duty equipment. For lessors, finding the cash to meet the industry's equipment-leasing demands will be a tall order. Some leasing firms raise money to expand their equipment inventory by selling limited partnerships to public investors, thereby transferring ownership in the equipment they continue to manage.

Capital Associates and the investment firm of PaineWebber, for example, currently are marketing the PaineWebber Preferred Yield Fund, a diversified portfolio of equipment on lease primarily to investment-grade companies. Last year, Capital Associates sold more than $287 million worth of equipment through a combination of public, private, and corporate investor programs, a 60-percent increase from 1988. With the money that is raised, the fund will acquire a wide variety of equipment, including forklifts, compressors, and other heavy-duty machinery as well as various types of office equipment.

If the fund meets its objectives, investors will receive cash distributions equivalent to a 14-percent return, payable quarterly, for five years.

Although a few tax advantages did survive for leasing arrangements after the 1986 tax-reform law was enacted, leasing now is driven much more by business-cost factors such as tight credit than by tax motivations.

In a lease arrangement, for example, 100-percent financing usually is available. Although payments for a lease may be somewhat higher than those for a conventional loan, there is no down payment, which helps preserve the lessee's operating capital and borrowing capacity. Similarly, leasing is an off-the-balance-sheet form of financing that is considered an operating expense, not a liability. This allows companies to acquire equipment without the acquisition affecting their capital budget. And lease payments usually can be spread over a longer period of time than the one to three years customary for bank loans.

"There are so many ways to tailor a lease agreement to a company's individual equipment and financial needs that you might call it a personalized rental agreement," says CAI's Olmstead. Nonetheless, he points out, contractors must carefully examine "all the alternatives" before making any commitments.

For example, monthly payments are tax-deductible only if the lease arrangement qualifies as a "true lease." This means the lease can last no longer than 80 percent of the useful life of the equipment, including lease renewals.

In addition, costs of leasing may vary widely from business to business, depending on the equipment needed.

"The bottom line is that equipment leasing is a viable financial alternative that makes sense for most companies," says Olmstead, "but only a detailed analysis of leasing vs. purchasing can determine that for sure." NB

The advantage of leasing, *says George Inman, is having equipment to use as needed without the worries of ownership.*

PHOTO: JIM CHAPPELL

ENVIRONMENT

From The Ground Up

Firms that serve the nation's increasing environmental demands are at the core of a growing, recession-resistant industry.

By Bradford McKee

As director of sales for McLaren Environmental Inc., in Rancho Cordova, Calif., Gail Brice helped increase the company's yearly revenues from $1 million to $60 million in six years. During her tenure, the company's basic work of cleaning up hazardous-waste sites was expanded to such new areas as advising corporate clients on chemical risks and air quality.

Brice's success prompted her to start her own business, Brice Enviro Ventures, in Newport Beach, Calif., last August. The firm advises small environmental companies on finding capital and managing growth. She now has about two dozen clients. Her firm's work includes the matching of client companies with investors and larger companies interested in financing or acquiring environmental firms.

For arranging these deals, Brice earns a finder's commission and equity. In 1991 she expects to receive $1.8 million in revenues for her own firm plus $600,000 in equity in her client firms. "I like to grow businesses," she says.

PHOTO: ©MARK RICHARDS—SIPA

"Focus on a niche," says entrepreneur Gail Brice, whose firm helps small environmental companies find capital.

Brice's success as an employee of one environmental firm and a founder of another shows how environmentalism is becoming a major source of business opportunities.

The growth of the environmental-services industry stems from a mix of increasing environmental regulation, rising consumer expectations, and widening recognition within business that environmental action can be good business as well as good citizenship.

Revenues for environmental services totaled $120 billion in 1989, according to EnviroQuest Inc., a San Diego market-research firm. That figure could double by 2000, analysts say. For example, they point to increased outlays for pollution-control equipment.

Analysts predict that spending on big capital items such as landfill liners, water-treatment equipment, catalytic converters for cars, and scrubbers and filters for industrial air emissions could nearly double by the end of the decade.

Underscoring the potential for such rapid growth is a 1990 study by Stanford University and the accounting firm of Deloitte & Touche, which found that a large industrial company might spend as much as $450 million a year on routine environmental-compliance costs. Of the 80 firms in the study, 94 percent rated environmental issues as strategically "critical" or "important." More than half said the importance of environmental issues will "significantly increase" in the next decade.

Companies that offer environmental services expect to grow accordingly. Analysts say growth rates of 11 or 12 percent a year through 1995 are possible for firms that specialize in hazardous-waste handling, waste cleanup, air- and water-pollution control, recycling, and environmental consulting.

Related businesses have similar prospects. The market for environmental technical instruments in this decade could expand 15 percent annually, according to EnviroQuest, and the analytical-services sector could grow 20 percent a year through the 1990s.

Michael Silverstein, president of Environmental Economics, a Philadelphia market-analysis firm, calls the environmental-services industry "recession-resistant" because regulation drives demand, and thus much spending is not discretionary. Environmental factors, Silverstein says, are "the most significant shaping the economy." And though several large firms dominate the environmental markets, he says, "the real vitality in this industry is at the entrepreneurial level."

However, entrepreneurs in these uncharted markets should not assume that success is certain, experts warn. Problems often arise in raising capital, recruiting managers who are both environmentally literate and market-wise, and controlling growth.

Here are challenges facing environmental entrepreneurs:

Raising Risk Capital. Competition for money is tough. Because environmental firms usually lack hard assets to secure loans, banks are hesitant to lend them money. Thus venture capital is the likeliest source of financing for new environmental enterprises, say business owners and consultants.

Venture-capital groups like the growth potential of environmental services. As a result, venture capitalists might invest $400 million to $500 million in environmental enterprises in the next two years, which would be 50 percent more than they have invested in such ventures to date, according to a 1990 EnviroQuest study. Grant Ferrier, edi-

tor of *Environmental Business Journal*—which is published by Environmental Business Publishers Inc., a company related to EnviroQuest—says the study found 60 to 70 venture-capital groups that are "actively looking" at environmental deals now.

Nonetheless, it is hard to obtain even risk money for environmental ventures. As in most venture-capital deals, business owners who receive such financing should be ready to surrender equity. Franklin Agardy and his original cofounders gave up three-fourths of the equity in their Sunnyvale, Calif., firm, In-Process Technology Inc., to raise $1.9 million to market the firm's device for controlling air toxins. Finding capital is a "long-term selling job," says Agardy, who went to 30 or 40 venture-capital groups last year seeking money.

Finding capital is a long-term task, says In-Process Technology's Frank Agardy, center, with John Wilcox and Scott Johnson.

PHOTO: ©ROBERT HOLMGREN

A venture group that helped Agardy is Technology Funding Inc., in San Mateo, Calif. Vice President Thomas Toy says Technology Funding invests only in firms with "proprietary features"—that is, exclusive know-how that can block market entrance by competitors. Toy says his firm wants to finance ventures in waste reduction, air- and water-pollution control, and some niches of recycling.

The clincher for getting risk capital, Toy says, is the "compelling economics" of a venture. A good environmental idea makes money, he says, "because it just makes sense."

One company that secured risk capital from Toy's firm is Cyclean, Inc., in Georgetown, Texas. Cyclean, which obtained $3.2 million from Technology Funding, recycles asphalt for the cities of Austin, Texas, and Los Angeles. Reprocessed asphalt costs 30 to 40 percent less than virgin asphalt and is equal in quality, says Carl Hutchison, Cyclean's president. Cyclean's market potential is gigantic because asphalt covers 93 percent of U.S. roads, Hutchison says; about $12 billion is spent annually on virgin asphalt. Cyclean thus meets Toy's criterion of "compelling economics."

Jonathan Flint, a venture capitalist with Burr Egan Deleage & Co., in Boston, says his firm seeks environmental ventures with "very high margins," that is, pretax profits of 15 to 25 percent.

Often, however, those who seek environmental capital are too optimistic, says E. Lawrence Hickey, investment analyst with First Analysis Corp., a Chicago venture-capital group. He says "40-percent margins" are unrealistic even for highly proprietary companies.

Building A Management Team. Market strength aside, venture capitalists look for environmental firms with solidly entrepreneurial managers.

Technical experts abound in smaller environmental companies, says investor Philip Fiske, vice president at 3i Capital Corp., in Boston, but there are "not a lot of people who are very market-focused." An ideal environmental executive, Fiske says, is a marketing person familiar with environmental-services technology.

Venture capitalist Flint says that if investors see a promising environmental technology, they'll recruit management. Flint says Burr Egan Deleage did this with one East Syracuse, N.Y., company, Galson Remediation Corp. Galson's patented process eliminates toxins such as dioxins from soil. Flint says the process is better than incineration, which emits toxins into the air and ground water. To run Galson, investors brought in Richard Tavelli, formerly chief environmental officer at Texas Eastern Pipeline Co., in Houston.

Having been both client and marketer, Tavelli says he has a "global overview" of the environmental-services business. Tavelli's experience can help him bring Galson's process to market, Flint says. Investors want managers who, like Tavelli, can "spot a high-growth market with big gross margins," says Flint, and can control that market well.

Sound Growth. Though some entrepreneurs might say there never could be too much growth for their firms, unbridled expansion can pose problems for a business of any type—including environmental services.

As a banker in Chicago, Henry Mendoza watched the environmental-services industry for over a decade. He left banking in 1979 to work for an environmental company, and in 1986 he opened Maecorp Inc., a hazardous-waste-cleanup firm. He borrowed $500,000 backed by the U.S. Small Business Administration and got $1.7 million in equity financing from small-business investment companies. Maecorp expects 25 to 35 percent growth this year and revenues of $18 million, Mendoza says, compared with first-year revenues of $7 million.

Before passing its break-even point of $15 million in revenues, Maecorp "ran out of cash a couple of times" while struggling to meet its contract commitments, Mendoza says. "Our biggest problem has been funding the growth."

The key to handling such growth is discipline, say experienced entrepreneurs. Sandra Clark of Warren, Ohio, started Autumn Industries Inc. in 1979 as a home-based scrap-hauling service. Autumn now is a $10 million company that hauls hazardous waste. Clark says environmental-business owners should stick with narrow market niches, specific service regions, or with certain types of clients.

Steve Maxwell, vice president of Recra Environmental Inc., a testing firm in Amherst, N.Y., echoes Clark's advice. Recra's rule, Maxwell says, is "constant focus" on a strong balance sheet and "conservative" accounting. Since 1986, Recra has grown from $1 million to $11 million in annual revenues.

Competing Wisely. Environmental consultant Gail Brice says that some newer environmental firms eager to ac-

quire business make the mistake of underbidding on contracts. "People are often not getting the margins they need on their projects," Brice says. "They bid on jobs knowing they're going to lose money, to get the experience base. Soon they're working for free."

Some companies can turn competitors into market opportunities, Brice says. "Focus on a niche and market to the larger environmental-services firms." Such a strategy has worked for Mendoza, who says some potential clients "look at the larger [environmental-services] companies first, and then we get on as a subcontractor."

Regulation. The past 20 years have brought a host of environmental regulations to U.S. businesses. "A specific market driven by a regulation can make a small company very successful," says Ferrier at Environmental Business Publishing. He cites the example of underground storage tanks. The federal government and many states have trust funds to help tank owners remove or replace leaking tanks; these funds almost guarantee work for cleanup firms.

Environmental capitalists also are watching the 1990 amendments to the Clean Air Act. The new law will require utility companies to cut sulfur-dioxide and nitrogen-oxide emissions. Bakeries, dry cleaners, and printing shops will need help reducing hydrocarbon releases. Services of industrial engineers, designers, and environmental consultants will be in fresh demand as a result, says Silverstein at Environmental Economics.

The federal Superfund law has spurred enormous growth in analytical services and waste cleanup. Because of the law's provisions, "there's hardly any real estate that changes hands without a fairly detailed testing" of the site for traces of toxins, says Recra's Maxwell.

PHOTOS: ©STEVE WOIT

"Our biggest problem has been funding the growth," says Henry Mendoza, whose firm cleans up hazardous waste.

Regardless of whether property is changing hands, Brice says, corporations are cleaning up their real estate because land tainted with hazardous waste counts as a liability on a company's balance sheet. Waste-free property enhances a corporation's net worth, Brice says, especially if the company tries to sell off land. This too is what Toy calls "compelling economics." Silverstein calls it boardroom environmentalism. Such concern is "not a [public-relations] gambit," Silverstein says. "It's the pillar of the modern corporate bottom line."

Translating the regulatory vocabulary, of course, engages 12,000 to 20,000 environmental attorneys in the U.S., Silverstein notes.

When Gail Brice returned from an environmental-business seminar in Canada recently, she found 20 phone messages from entrepreneurs looking for help to expand their markets. The callers included a drilling company, a testing lab, a sludge-disposal company, and someone with a process for recovering waste gold. Her job is to help entrepreneurs and investors analyze risk, Brice says. "I have not met with one investor who has said investing in the environmental area is not one of [his or her] highest priorities. Everyone is interested." NB

For More Information

Before you enter the field of environmental services, you'll need to know your market, its strengths, and its staying power. You also may need to know where to look for investors. Here are resources that can help you:

EnviroQuest Inc. has databases of business opportunities for goods and services in the environmental industry. The firm also offers lists of companies in specific markets, projections of market sizes and potential revenues by regions, guides to regulation, and leads to related opportunities. For details, contact EnviroQuest Inc., 5060 Shoreham Place, San Diego, Calif. 92122; (619) 458-5867.

Environmental Economics, a publishing firm, puts out an annual *Directory of Environmental Investing*. It has profiles of 60 environmental companies, gives growth figures and industry employment trends, and analyzes the impact of the environmental industry on major U.S. economic sectors. The directory costs $62.50, which includes postage, handling, and occasional updates during the year. Contact Environmental Economics, 1026 Irving St., Philadelphia, Pa. 19107; (215) 925-7168.

Environmental Business Publishing Inc., a firm associated with EnviroQuest Inc., publishes the monthly *Environmental Business Journal*, a resource of industry analyses focusing on small and growing firms. *EBJ*'s environmental stock summary is among the most thorough available. A subscription is $395 a year, from Environmental Business Publishing, P.O. Box 371769, San Diego, Calif. 92137-1769; (619) 295-7685.

Small-Business Computing

What's new and useful about an increasingly essential business tool.

MONEY MANAGEMENT

A Better Look In An Old Favorite

Computers are great at keeping track of stuff, particularly money. Over the years, **Andrew Tobias' Managing Your Money**, from Meca Software, has established itself as the premier personal-finance manager. Now it has been improved again, to version 7.0 (a very senior number, as software goes). The richness of the program has steadily increased over the years, and its features list would take pages to repeat.

Managing Your Money can keep track of all your personal accounts, loans, credit cards, and investments. It will calculate your net worth, project your available cash, give you a quick estimate of your tax liability, and keep vital records. It will help you budget and track how close you are to meeting your budget. The new version includes electronic check-writing and banking via modem. And it has a pop-up calculator and writing program (with mail-merge and label-printing). MYM has an excellent, chatty manual. It also will transfer information to **Andrew Tobias' TaxCut,** Meca's tax-preparation package.

The latest improvements answer major complaints of longtime users of the program, says Meca President Daniel Schley. For earlier versions, one of the major complaints was the interface—the way it uses keys and screens to give you the information you want. It wasn't like anything familiar, and so your fingers were always doing the wrong thing.

Version 7 now has solved all that with a relatively familiar set of drop-down menus. Movement from one function—say, checkbook or net worth—to another is simple. Organization is more logical, and the program doesn't use common keys—such as ESC—in peculiar or unexpected ways.

For ease of use and completeness, Managing Your Money is in a class by itself. Managing Your Money lists for $219.98. From Meca Software, in Westport, Conn.; (203) 226-2400.

—Ripley Hotch

ALSO NEW AND IMPROVED

Some Financial Software Adds New Features

Great American Software is working to introduce more financial-management features to its popular **One Write Plus** accounting program. It began by creating a program called @Accounting, which would read figures from the accounting program into Lotus 1-2-3 spreadsheets so that users could perform business analysis and planning. Then it boxed the whole software package—One Write Plus, @Accounting, and Lotus 1-2-3—and priced it at $795. Now Great American has upgraded @Accounting so that it will work with other spreadsheets. @Accounting is $99.95. The company is also running a special on its Payroll module, at $99.95, with special updates on state and federal tax changes that affect payroll.

Up Your Cash Flow, another approach to cash management and earnings projections, has added several features, including graphics and ratio analyses, to its version 3.0. Due out in February, the new version will drop its price from $129.95 to $99.95. Obviously, amortization works in software, too. Up Your Cash Flow creates a series of spreadsheets from information you give it about the finances of your business. It remains easy to use although it could use a pop-up calculator and a key that would let you reverse direction when filling out the work sheets.

An Intelligent Friend Gets A Pretty Face

CompuServe has long been high on information addicts' lists of computerized sources of everything from news, sports scores, and weather to financial data, consumer-product ratings, and airline reservations. CompuServe also has been a favorite among electronic-mail and computer-bulletin-board junkies.

One drawback has been that CompuServe's user interface can appear stark and alien to casual users. That negative is gone now that CompuServe has released its **Information Manager** software. This package, which will run on all but the most stripped-down IBM and compatible PCs, has the good looks and intuitive feel of Microsoft Windows 3.0. Its pull-down menus make it fast and easy to explore CompuServe's many features, using either your keyboard's cursor pad or a mouse.

In fact, Information Manager will probably improve most users' efficiency so much that the software's cost will be offset in short order by savings in on-line time charges. The CompuServe Information Manager costs $24.95 to current members of the service (that price includes a $15 credit for on-line time) and $39.95 to new members (including $25 of use credit). Order by logging on to CompuServe and entering "Go Order" at any ! prompt or by calling (800) 848-8199.

MONEY SAVERS

The Next Best Thing To A Link To Heaven

No one—at least no one on earth—has software capable of controlling the weather. But an inexpensive program enables PC users to accomplish the next best thing: learn what the weather is apt to be.

If you've ever been frozen or roasted because you packed incorrectly for a business trip, or your plan to have employees do outdoor work has been rained out, or you've found deliveries delayed by a snowstorm, $49.95 will seem a small price to pay for **WeatherBrief.** This program enables you to find out almost anything you need to know about current or predicted weather anywhere in the world.

WeatherBrief users download forecasts and up-to-the-minute satellite photos via modem. If you like the Doppler radar scans on your local television weather, you'll love WeatherBrief's graphics, which developer Steve Root calls "industrial-strength."

Loading and operating WeatherBrief is as simple as copying two diskettes of files to your hard disk, providing the program with some basic information about your modem, and choosing from the literally hundreds of forecast and location options available. By working offline, you save in connect charges, which range from 20 to 43 cents a minute, depending on time of day and whether you pay for the call to the WeatherBrief computer in Utah or use the firm's toll-free number. But don't get too hung up on the issue of on-line charges: Unless you succumb (as anyone might) to the enormous temptation to request many more maps than you likely will need, you'll be online no more than a minute or two per inquiry.

If there is a drawback to WeatherBrief, it is the program's hefty system requirements: an IBM or compatible PC, DOS 2.1 or higher, at least 512K of RAM, a color display with EGA or VGA graphics capability, a floppy and a hard disk with 2 MB of available space, and, of course, a modem.

WeatherBrief is available from most retail and mail-order outlets or from The Software Toolworks, in Novato, Calif.; (415) 883-3000.

—Albert G. Holzinger

PARTNERSHIPS

Big Blue Thinks Small

Some big companies apparently are serious about helping out small business. **IBM** has created a small-business-services division and has been seeking what it calls "partners"—a broad range of vendors and service providers with special products or expertise that IBM wants delivered to its customers.

One ambitious project teams IBM with **Lotus Development Corp.** and the **Association of Small Business Development Centers** in computer-learning centers at a number of SBDCs, initially in Pennsylvania, Massachusetts, North Carolina, Florida, Michigan, Washington, and Texas. Jeff Samuelson, marketing director for IBM's small-business group, says that more than 4,000 small-business people have attended the learning centers.

The learning centers began with Lotus and the Association of Small Business Development Centers; IBM came in later. Computer stations in each participating center will have both orientation in financial applications and practice sessions.

IBM uses partners in the small-business field, says Samuelson, because "the world of small business is not homogeneous. What they want is someone who understands their business and offers suggestions. It is unrealistic to expect even IBM to have that level of expertise and breadth of products."

One interesting creation is a database called the Solution Center, which lists every IBM-compatible business software product of which the company is aware. If you want to search the database to see what products might be available, you have to talk to an IBM marketing representative.

Wirt Cook, IBM's assistant general manager for new-business marketing, says the company knows that the potential market among small businesses is very large and worth pursuing. "My whole focus is small business," he says, "and when I talk to top management, they know that's where I'm coming from."

His aim is to have IBM "capture the flag" in the small-business market, and to do so, he plans to focus on service. It marks a change in attitude in IBM, which Samuelson hopes will come across to small-business people: "They admire IBM but are not sure it wants to work with them. But we want their business and are willing to do what we can to get it." NB

MANAGING SUCCESSION

Sudden Departures

Coping with the unexpected loss of a company's key manager requires preparation.

By David B. Bowes

The loss of a key manager can be devastating for any company, large or small. One day the manager is on the job, guiding the entire organization or a significant portion of it, thriving on hard work and responsibility. The next day he or she is gone—victim of an accident or an illness, perhaps—or soon to depart for a better position at another firm.

How do companies survive the loss of a key manager? How can they weather that period when no permanent successor is in sight? How can they prepare for such unexpected occurrences?

Although it might appear that a replacement for a key manager without an obvious successor might be hired quickly and easily from the ranks of active—or even retired—executives at other companies, many experts recommend other strategies. Corporate human-resource specialists and management consultants who help companies endure the difficulties of transition generally emphasize prevention and preparation.

There are limits to a prevention strategy, of course. Insisting that key managers use only reliable transportation, for example, cannot guarantee that they will never be involved in an accident. Requiring key employees to undergo free annual physical examinations is no assurance that they will stay healthy.

Nonetheless, well-managed companies can plan for unscheduled executive successions in the same way they make efforts to minimize the adverse impact on the business caused by other internal and external events. By thinking the unthinkable in a timely way, companies can assure that they won't be overwhelmed by the loss of key managers.

The unthinkable can take various forms within a company, but death is the most dramatic. In 1973, an unexpected death jolted Mark Fore & Strike Inc., then a chain of eight retail stores specializing in resort sportswear. Michael W. Tiernan, of Boca Raton, Fla., now chief executive officer of the family business, recalls the event:

"I was 23 years old and with the Peace Corps in Nepal when I was informed that my father, John W. Tiernan, had died. He was 51, and there was no warning at all. He was the CEO and the 100 percent owner. There was no succession plan, and without it we had nothing to guide us.

PHOTO: DEBRA LEX

Have a plan *for replacing the firm's leader, and decide in advance who could take over, says sportswear-firm CEO Michael W. Tiernan.*

"My mother ran the company for a year and a half. Then an outside president was brought in. This led to strained loyalties and a shakeout right when there was a critical need for stability. Then another outsider was hired. He was a seasoned manager and worked out better. He had retired to Florida, where we're headquartered, after being a CEO himself and also serving on our board."

Tiernan underscores Mark Fore & Strike's vulnerability in that period. "What you need is time," he says. "Time to sort out what's best, what the future should look like. But nobody gives you any time. We had more than 50 offers to acquire the business in this period; the sharks just kept circling."

Says Tiernan: "Any good manager will have a contingency plan for succession. That plan may include contact with several individuals who are well-prepared to take over."

Estimates are that fewer than one-fourth of small businesses survive the loss of their most important manager—the founder—says John A. Cicco Jr., president of Cicco and Associates Inc., a Murrysville, Pa., management-consulting firm specializing in small businesses. Cicco cites the history of the family restaurant business that his immigrant grandfather founded nearly 50 years ago. "All of my grandfather's children were involved in its growth to one of Pittsburgh's most successful restaurants during the 1930s and 1940s," he says. "And while they were intelligent—each had considerably more formal education than he did—and they knew every facet of the business, no combination of their ownership or partnership was able to keep it viable after his death."

The restaurant failed, Cicco explains, for the same reason so few small businesses survive their founder: "The heirs lack the founder's emotional intensity and involvement to make the sacrifices, to immediately confront the problems or eagerly exploit the opportunities, and to constantly focus everyone's energies on the endless striving to make it better."

In Cicco's experience, almost every new small business will "border on absolute collapse" sometime during its first five years.

The resolve that's necessary to "push the business through that wall" seems to come more from emotional makeup than analytical ability, he says.

The required emotional makeup, Cicco believes, resides in those people who find business is more compelling "when myopic, dry financial objectives are replaced by visions and dreams, when cumbersome management systems are scrapped

David B. Bowes is a free-lance business writer and communications consultant in Washington, D.C.

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for basic common sense."

Says Cicco: "The more that any leader's visions, dreams—even obsessions—have been shared with others in the company, the greater is the likelihood of finding a successor inside. That ideal successor may or may not be in the second generation. Don't assume that a son or daughter of the founder has those visions as opposed to being devoted or fearful."

While larger companies by definition have a larger pool of executives who can be tapped for higher duties, they have no guarantee of a seamless transition. AT&T faced an unexpected leadership void in 1988 when its chairman, James E. Olson, died just two days before he was to address a meeting of shareholders.

AT&T's board of directors elevated the company's president, Robert E. Allen, to the chairmanship. Still stunned by the death of his close colleague, Allen met with other AT&T leaders and also with the Olson family. He then began a crash course on running the shareholders meeting.

"After successfully presiding at that meeting," recalls company spokesman Burke Stinson, "Mr. Allen prepared for the chairmanship in a more deliberate way. But even though he could fast-forward this process, it still took six to 10 months."

Each observer of tragic or unexpected losses from management ranks has his or her own notion of the worst such event that could occur at a company. To consultant Susan Goldstein, it is the abrupt departure of a son or daughter who not only bears the family name but also has sufficient talent to bear the founder's torch.

Goldstein, partner in charge of the Hubler/Swartz consulting division of the McGladrey & Pullen accounting firm, in Minneapolis, says company leaders often fail to ask their offspring directly whether they are happy enough in the business to stay and be groomed for succession. She says that "they're afraid to ask the question because they're afraid to hear the answer." Meanwhile, the indecisive heir apparent remains silent out of loyalty, or family pressure, or feelings of guilt even though he or she may want to try something else. "When the break finally comes, it's devastating," Goldstein says. "The father is stunned, other siblings are passed over, there is extra work for everyone, and the business is forced to seek outside management for the first time."

Two preventive steps can avoid such a crisis, Goldstein says. First, heads of family companies must realize that succession planning includes talking candidly with likely successors. Second, she says: "We recommend three to five years of training elsewhere for the next generation, so they learn what the world is like. If that's not possible, have them report to someone in the family company other than a parent."

Firms that take succession planning seriously and start looking within the firm for a successor for an incumbent almost always discover gaps in the skills of presumed candidates, says Jude T. Rich, chairman of Sibson & Co., a Princeton, N.J., subsidiary of the insurance brokerage firm of Johnson & Higgins. Some firms respond by designating several executives to fill the gap collectively. Others expand the management team.

Don't wait *for a succession crisis to hire a seasoned executive, says consultant Robert Gunn.*

Rich says expansion often is "a small cost for the value received, for the core of new skills." Succession planning must openly engage the entire team, he adds. Initially it calls for consultant assistance, and an outside mediator can help, he says, "because this is very candid stuff." Without planning, Rich says, transitions are almost sure to be bumpy.

A specialist in crisis-managing public relations underscores this temptation to postpone planning for executive succession. "Companies plan for everything from supplier deliveries to the annual picnic," says Jack Neal, senior vice president of Corporate CPR, of Vienna, Va. "Sometimes I even see the right books on their desks, but nobody had opened them."

Neal recommends that public-relations considerations be integrated with the executive succession plan. "If the manager who left or is leaving ever took calls from the press, a news release announcing the departure, and who is filling in, should be issued at once. Another announcement should tell employees what to expect."

An alternate course, mentioned by several consultants, is the short-term use of retired executives, many of whom are consultants themselves. Cornelis DeKluyver of New York, a principal with Cresap, a consulting division of the Towers Perrin consulting and actuarial firm, observed that retired executives now represent a significant source of assistance. He said he thinks some firms soon will supply line managers on short notice for companies with unplanned succession problems.

Some personnel experts take issue with this prediction, contending that the difference between consultants and full-time employees shouldn't become blurred. Yet all generally agree that seasoned executives currently "on the beach," as one specialist put it, make up an ideal source of short-notice assistance under lease or contract.

"I can think of a half dozen right now while we're talking," said Robert F. Gunn, a management consultant with A.T. Kearney, in Chicago. "But why should companies wait for a succession crisis? Why not go ahead and pick up a solid retired executive who meets current needs? Small companies always have a leadership deficit."

Sibson's Rich also recommends considering the so-called contingent work force as a source of quickly obtainable executive talent. "If you can afford the fee of a general management-consulting firm," Rich says, "go for it. If not, lease someone for six months or a year. Let him or her stabilize your situation and train a permanent successor.

"First, look in your local community. Keep an eye on who's leaving the bigger companies. Locate the guys who opt out rather than the ones who are squeezed out. And don't overlook capable women with business training who wish to return to work after raising families."

Put another way, businesses that invest a reasonable amount of time and money in planning for executive succession can survive the painful loss of a key manager without lasting damage to staff morale or the bottom line.

How much time and money would be reasonable? To companies in crisis, it's whatever they failed to spend on succession planning before the loss occurred. ■

Editor's Note: For another look at succession planning in a family business, see Page 27.

To order reprints of this article, see Page 73.

PHOTO: LOU JONES

JAPAN

By Nabuko Hashimoto

The distance separating the United States and Japan diminished symbolically Dec. 4, 1990, when leaders of the U.S. and Japan chambers of commerce signed a landmark cooperative agreement.

This agreement seeks to improve trade and investment relations through enhanced communication between the American and Japanese business communities.

To that end, here is an overview of bilateral trade affairs as viewed by three Japanese business leaders.

Hitachi Ltd.

Japan's largest comprehensive manufacturer of electric machinery, Hitachi Ltd., is active in overseas markets, but its foreign-distribution strategy has been shifting from direct exporting to increased local production and international procurement to avoid trade problems. Production outside Japan currently accounts for about 25 percent of overseas sales.

In the U.S., where Hitachi operates through Hitachi America, Ltd., a wholly owned subsidiary, the company is focusing on local production, and it recently established a company to produce television picture tubes. Eventually, Hitachi plans to re-export American-made products back to Japan.

Tsuneo Tanaka, a Hitachi board director and the group executive of the International Operations Group, believes that his company's investments will contribute to the long-range health of the U.S. economy.

A long-term resident of the U.S., Tanaka fears that the U.S.-Japan trade imbalance and bilateral trade friction may worsen with the economic slowdown in the U.S. and the Middle East crisis.

Japanese investments in the U.S. have been increasing, but not all of them have been welcomed by Americans, he notes. Examples of unwelcome investments, he says, are Japanese companies buying property or acquiring U.S. companies that are considered symbolic of American life or culture, as in the case of Sony's buyout of Columbia Pictures Entertainment Inc. The press has seized upon the more sensational stories, Tanaka notes, and public resentment has been fueled by them.

Nevertheless, investments in the U.S. will increase, he says, and the important thing is to meet American customers' needs. Through these investments, Japanese companies should prosper in the U.S. in the same way that an American firm would.

The image that Hitachi wants to project in America is mainly one of a local company. A global policy has to start at the head office, but regional policies should be made locally, Tanaka says. This means that people at the head office should not force their opinions on those people managing regional offices. Hitachi America, which is the holding company (and which also acts as a sales company), has nine subsidiaries with about 750 employees, while its manufacturing arm has about 8,500 workers.

So far, Japanese account for about 10 percent of the staff, but they still hold the key posts, concedes Tanaka, who himself spent five years in the U.S. to "Americanize" the company. His responsibilities included recruiting good American staff and training them.

Sure enough, some progress has been made: When Tanaka first went to the U.S., there was only one American general manager in the company, in charge of legal affairs. Now vice presidents in 15 divisions and general managers in four divisions are Americans. Communication has improved, but Tanaka is not completely satisfied even after five years of working at it. It will probably take 10 years, he says, before the American officers will be setting the policies, with Tokyo only doing the checking. His hope is to put an American as president of Hitachi America sometime in the future.

As part of the effort to promote better understanding between Japan and the U.S., Hitachi has been doing its part to contribute to local cultural and welfare activities. Hitachi America donates 1.5 percent of its pretax profits for welfare and local social activities. At the same time, the Hitachi Foundation has a (U.S.)$1.7 million fund set aside, mainly for education projects. The company also sponsors short-term educational exchange programs as well as longer-range ones that bring foreign staff to train at the head office for one to three years.

As far as his market outlook

Joseph Jachna, *Door County*

JAPAN

goes, Tanaka believes that there are fewer newer products among consumer goods partly because of a combination of rising labor costs and falling market prices as a result of intense competition. "Things are no longer profitable in this field, so people are leaving for a higher-growth area," he explains. The focus will be on more luxurious, upscale products with emphasis on safety, he predicts. Instead of conventional television, for example, every manufacturer will be shifting to high-definition television.

On the other hand, sectors that are expected to grow by as much as two-digit figures include computers, office equipment, and also electronic parts for automobiles. And Hitachi's policy here is to manufacture the products where there is demand.

Hotel Okura

Hotel Okura is a well-known name among business people all over the world. It is one of Tokyo's top hotels, and it ranks in reputation with the likes of the Mandarin Hotel of Hong Kong, the Oriental of Bangkok, and the Savoy of London.

In recent years, some of the famous international hotel chains have been taken over by Japanese companies: The Intercontinental is now owned by Seiji Tsutsumi, a well-known billionaire and owner of Saison Group, while the Westin Group has been taken over by Aoki Construction Co.

Okura, with its good reputation, is not in a hurry to establish hotels around the world yet, despite the many offers it gets, according to its president and general manager, Tatsuro Goto. "We're a small company, and we have a good reputation. We don't want to do things halfway," he says.

Okura does have a few outlets, however. The oldest is in Amsterdam. In addition, the Okura took over the management of a hotel in Shanghai that opened last May and a resort hotel in Guam.

Back home, while competition is getting

Tokyo's Ginza district *is among its most bustling and fascinating.*

stiff, the 28-year-old hotel has managed to stay on top, and recently (U.S.)$50 million was invested to refurbish and restore the hotel's interiors. Some of the smaller rooms were joined to allow for bigger spaces, and the decor was chosen with care to give a more luxurious feeling.

Okura boasts a very good occupancy rate of about 90 percent average this year.

More important than appearance, however, is the service. Goto explains that the treasure of Hotel Okura is its people, whom it trains thoroughly. It is not always easy to attain the same results outside Japan, he adds.

Included among the hotel's training program is a course at Cornell University, and a hotel school at Lausanne, Switzerland, plus exchanges with staff of the Oriental of Bangkok and the Savoy of London.

Some 60 percent of its clients are foreigners (of which 85 percent are Americans, mostly businessmen), and the hotel often houses government officials from Washington because it is situated right behind the American Embassy. In February, when U.S. President George Bush is expected to visit Tokyo, his aides are likely to stay at the Okura Hotel.

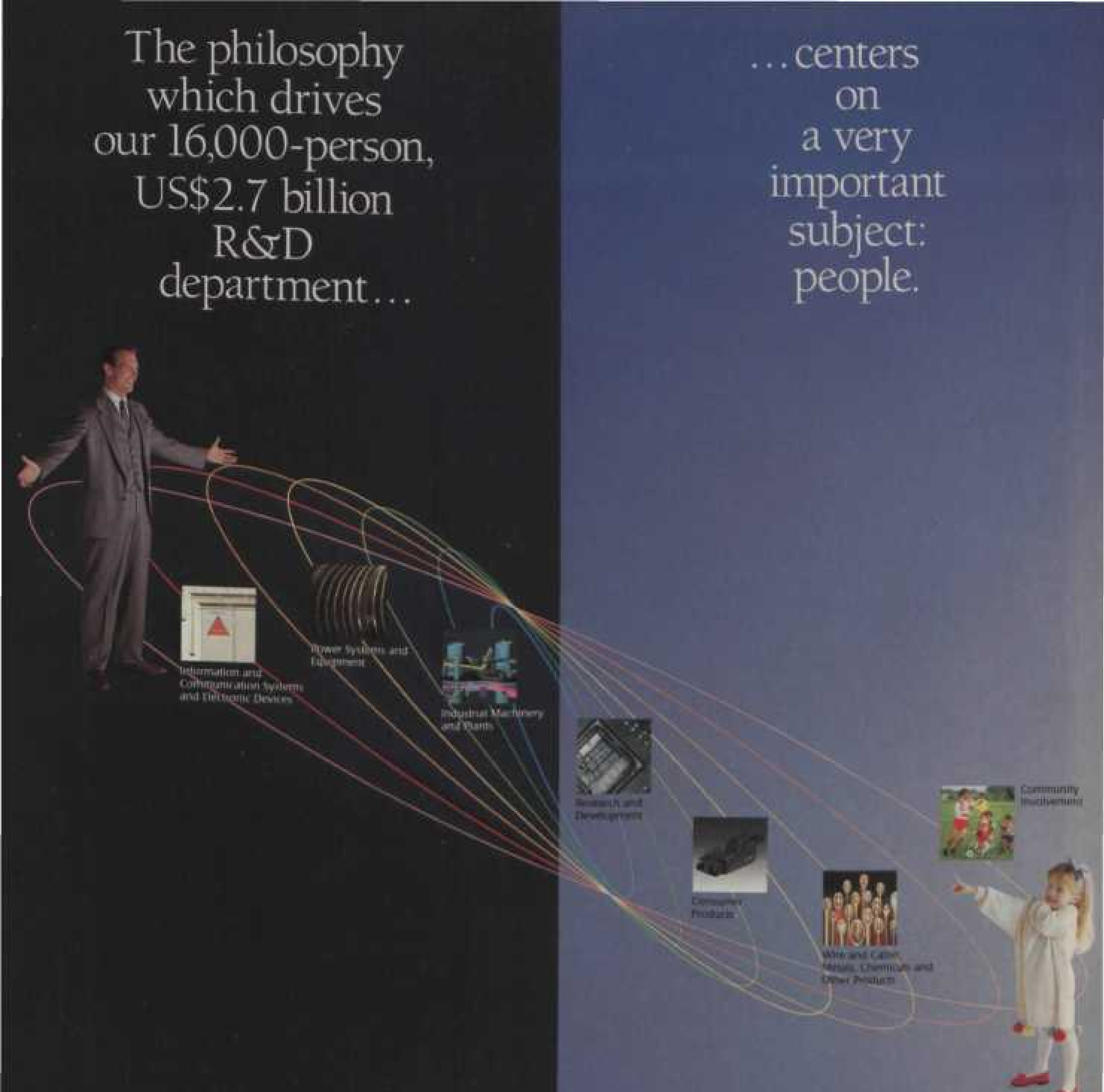
Goto is particularly careful about the first impression that the guests may get from the hotel. "Kindness and Harmony" is the motto that the Okura management teaches its staff, and at the same time its target is to achieve the following three points: "best accommodation, best cuisine, and best service," as Goto calls it.

Goto, who lived 17 years in the U.S. when he was working with Mitsui & Co., stresses that understanding is the key to avoiding trade frictions. In his own way, he is hoping to contribute to improving understanding between different cultures by showing his hotel clients that Japanese

Toshiba's plant *in Irvine, Calif., produces laptop computers.*

Expertise in robotics *at Toshiba is evident from this prototype.*

Environmental research *is conducted at a Toshiba engineering laboratory.*



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*$2,718 million, net R&D expenditures for the year ended March 31, 1990. US$1=¥158

HITACHI

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above The Sogo Shosha are members of

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JAPAN

are kind and sincere.

The biggest problem for the hotel staff is language, according to Goto, who says that even after 17 years of living in the U.S., he has some difficulty understanding English. Unless the Japanese learn to cope with the language barrier, they cannot become an international society, he insists.

Toshiba Corp.

As one of Japan's major electronics companies, Toshiba Corp. has been actively doing business around the world. In the U.S., its history goes back to the late 1950s, when the company began exporting television sets, portable radios, semiconductors, and electron tubes.

As business expanded, Toshiba decided to open a U.S. marketing and sales outlet and establish a manufacturing base. Now the company's activities in the U.S. have grown extensively, with different subsidiary companies and manufacturing centers all around America.

Amidst a rapidly changing business environment, Toshiba has been adopting new global policies to shift from conventional exports to increased production in local markets. As part of this new effort, the company decided in April 1989 to reorganize its entire business structure in the U.S. The former business sections—consumer electronics, industrial electronics, medical systems, and electronics components—were made into independent companies under one holding company, Toshiba America, Inc. This holding company, under its chairman and chief executive officer, Tadao Taguchi, has more than 8,000 employees.

The decision to restructure the company in the U.S. was part of Toshiba's international strategy to integrate regional operations. The new organization will facilitate information flow from the head office to the various subsidiary companies and vice versa, and therefore will enable the group to respond more quickly to the market.

The holding company also serves to project a consistent corporate "face" of Toshiba in the U.S., which according to the company motto is to "show commitment to the people; show commitment to the future," explains Yoshihiko Wakumoto, senior vice president of Toshiba Corp.

Hitachi's MRH500 *computerized tomography scanner utilizes magnetic resonance imaging technology. The scanner is noteworthy for its speed and compactness.*

As one of the oldest of Japan's leading manufacturers, Toshiba has always projected an image of being a serious, sincere, and international company, Wakumoto says. But being an old company doesn't mean that Toshiba should not be aggressive, especially with regard to new technology. As an example he cites the field of energy.

In the U.S., Toshiba deals with a wide range of products, from consumer electronics, to semiconductors, to industrial electronics, each accounting for about 30 percent of the company's business. But the company, which hopes to spend about 8 percent of its sales volume in research and development, wants to increase its efforts in the field of information and communication, which is expected to grow much further in the future.

And as the company diversifies into new potential areas like telecommunications, there probably will be a need for alliances with other local companies in order to lessen risks and to acquire a manufacturing and sales base, Wakumoto says.

Overseas sales account for about 30 percent of the company's business, and the U.S. is still the most important market for Toshiba, accounting for about one-third of its overseas market.

As business expands overseas, the company's main strategy is to produce in the local markets, which may not always be cheaper but allows Toshiba to better grasp the market and supply better products.

Over the past year in the U.S., Toshiba started production of superlarge 32- and 34-inch color picture tubes at its plant in New York state and of plain-paper copiers and facsimile equipment and surface-mounted printed circuit boards at its Irvine plant in California.

In this process of localization, Toshiba also is trying to give more responsibilities to local managers. While the presidents of the local subsidiaries are still Japanese, the heads of the factories are all American, Wakumoto notes. But the trend in the future would be to put a local president at the head of the Toshiba America group. The company already has such a presence in Holland, and "we've been training Americans to take more responsibility," says Wakumoto. "It would be more efficient to have a local person." Now that Toshiba has integrated its structure in the U.S., it can probably project a better image among young Americans and therefore be able to recruit an even more talented American staff, the senior vice president adds.

Outside of business, Toshiba also is active in local communities and has established a Toshiba Foundation in the U.S. to support educational activities. In addition, Toshiba conducts staff-training programs to bring foreign employees to work at the head office for a period of time.

The future outlook for Toshiba? This will depend on global economic conditions, according to Wakumoto. If the U.S. economy slows down for a prolonged period, then not only Toshiba America but also the Japanese economy will be affected adversely, he says. And since the weight of the Japanese domestic market is becoming important, if the Japanese economy weakens, then "we will be very worried," says Wakumoto. Japanese companies would have to think long-term to manufacture goods abroad and bring them to Japan, and Toshiba already has started this process.

Ten Tips For Working With Nonfamily Employees

By Arthur Pine with Julie Houston

In a family business, it's up to parents to take the lead in creating and keeping harmony in the work relationships between family members and other employees. Parents can prepare their children and nonfamily employees for the prospect of working together and encourage them to develop skills for establishing mutually beneficial, on-the-job relationships that will remain strong after the parents have left the business.

Here are 10 suggestions to help family members in their relationships with nonfamily employees:

1. Prepare your staff for your child's arrival. Once you have decided to bring your child or any other relative into the business, provide ample time for others to get used to the idea that the next generation of family is coming in. Let them know that while business will continue as usual, a family member will eventually take over. You need not make speeches or send official memos, but in a low-key manner make it clear to everyone in your organization that this is how it will be.

To help employees who might feel threatened by incoming family, be very specific about what your child will be doing and to whom he or she will be reporting. Assure employees that they will not lose their jobs because of incoming family. (But be honest! If the business takes an unexpected downturn, do what's best for the company. If this means favoring family members over nonfamily employees, you may have to weather nonfamily resentment.)

2. Prepare your children for working with staff. It is often more difficult for a member of the family to be accepted by co-workers when they join the family business than it is for a nonfamily member. Incoming family members are thrown into the spotlight; they are closely watched and, possibly, quietly or openly criticized.

Let your children know you are proud of the people who work for you and that they are people who share your own goals for the company's success.

Author *Arthur Pine, right, and son Richard—a family team.*

About The Author

Arthur Pine turned his New York literary agency into a family business 15 years ago when son Richard, then in college, worked there one summer and decided being an agent was what he wanted to do with his life.

Says Pine: "I felt confident that we could make it work because I had great respect for his mind, character, and his love of literature."

Today, Arthur Pine Associates, Inc., represents more than 100 clients, including Dr. Wayne Dyer, Katherine Dunn (author of *Geek Love*), George Burns, and Bob Hope, whose *Don't Shoot, It's Only Me* has been a best seller.

Now Arthur Pine has written his own book, *Your Family Business*, from which this article is taken.

Candidly explain to incoming family the personality quirks and attitudes of the key players in your business as you perceive them. Offer ways to help them win over these key players. Emphasize that if they are receptive and attentive to the possibilities, there is much knowledge to gain from those on the job.

When there are disputes between family and nonfamily employees, let your children try to work things out for themselves. One father knows that a technically talented supervisor in his company resents his daughter's involvement in management and tries to bypass her.

"But people do that," he says. "It's very difficult for my daughter, but it is something that she will have to learn for herself—how to work with these people."

This owner makes it clear to his employees that his daughter will be running the business when he retires. With this in the open, undoubtedly his daughter will find her own way.

3. Show your children the value of tact and diplomacy. Teach them that key employees need to be appreciated too, especially by the boss's would-be successor. Being receptive and respectful of their knowledge and expertise can go a long way.

"Everybody who worked for me was 20 years older than I was, but I knew if I said, 'Me captain, you sergeant, this is how you'll do it,' it would never work," says a son who joined his family's newspaper. Instead, he would sit down with an employee, explain what he wanted to do, and then say, "You're experienced. How do we go about accomplishing this?" Or, "Do you really think we need to do this thing this way? What about that way, which may save us more time?" When he used that approach, says the son, the employee's response was always positive.

4. Remind your children that they will have to earn the respect of nonfamily members. "My brother didn't start out in the office, he started out on the load-

ing dock," says one sister. "He's had every job in this factory, basically. He went from loading dock to maintenance man; he's had the grimiest jobs in the place."

Of himself, the brother says: "No one in the shop can tell me I don't know what I'm doing because I have learned it all and done it, and they know it."

You don't have to start at the bottom to be respected. But at any level, respect is earned. "He's not just the son of the boss," said one employee of a son who came in to handle sales orders at a very busy time. "He did a good job and followed through."

5. Use the opportunity of bringing in family to review your own rapport with staff. "Would I do it differently?" asks one parent who failed to keep a daughter in the business. "I *am* doing it differently. I treat my other employees better than I did before my daughter left. I delegate work. I delegate authority. I let them do it. I never used to have a staff meeting—it was always 'Do this,' period. Today I have staff meetings with my key people. It's a whole different feeling that I have running my business, and I attribute that to the experience of learning from the mistakes I made in losing my daughter."

Treat high-level nonfamily managers with kid gloves during a child's early training period. Introduce them to your child by crediting them with their successes in the business. Look for ways to compliment them as often and as publicly as you compliment your offspring.

6. Be fair to other employees. Treat nonfamily employees with the same commitment and neutrality you would your own family members.

Be ready to promote from within and to hire competent nonfamily employees for management positions. Bringing in outsiders with particular skills can add to the overall value of the family business.

Ideally, you want to make everyone in the firm feel like a member of the family. In a world where trust is a rare commodity, nonfamily employees who feel they can trust you are going to be that much more loyal.

"We have a strong sense of responsibility to our employees," says one brother. "We don't have five families to feed; there are 130 families. If things are bad, they come first. We come second. The most important thing is the health of the company. We'll worry about ourselves after that."

7. Show your children that you support and, if necessary, defend nonfamily employees. "One day a client called up and was giving my secretary a hard time," says one father, "and of course she's so very conscientious that she was in tears. And I said, 'Let me talk,' and I took the phone. 'You're very unfair,' I said in a matter-of-fact way to the caller. 'My secretary explained everything to you nicely and you've got her in tears. Now you talk to me.'"

8. Set a good, professional example among all the employees in the firm—with an emphasis on the nonfamily company structure. The working atmosphere of a family business can, as one

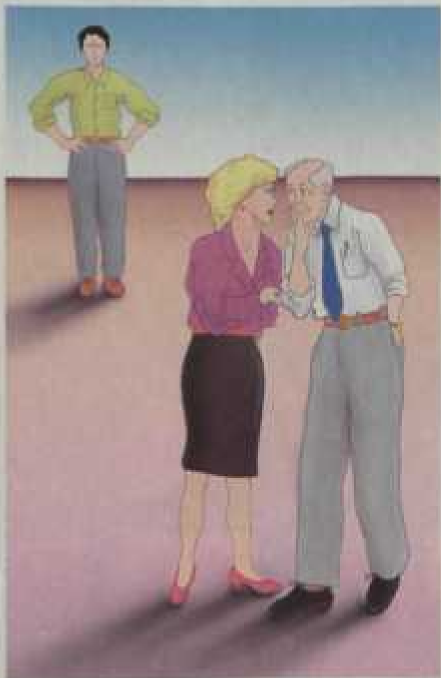


ILLUSTRATION: AL KETTLER

Prohibit "squealing" *by family members on the firm's nonfamily employees.*

mother says, be "good and bad—you become so family-oriented and extend yourself in such a way that other employees can't help but take advantage of it."

Referring to herself and her daughter, she says, "Sometimes we just have to remind ourselves that we are the bosses."

One way to emphasize the nonfamily business structure is to keep the office talk among family *about* family to a minimum. While it is impossible for a parent and a child not to discuss family matters in the office from time to time, make sure such talk does not interfere with business.

9. Anticipate the effect of growth on your interaction with nonfamily employees. "As you become more of a boss and business grows, one of the things that happens is that people don't always tell you what's wrong," says one very successful entrepreneur in business with his brother and two cousins. "The most important asset we have is our employees. We want to be visible; we don't want to be locked up in an ivory tower and distance ourselves just because we've grown. We touch the people who work here."

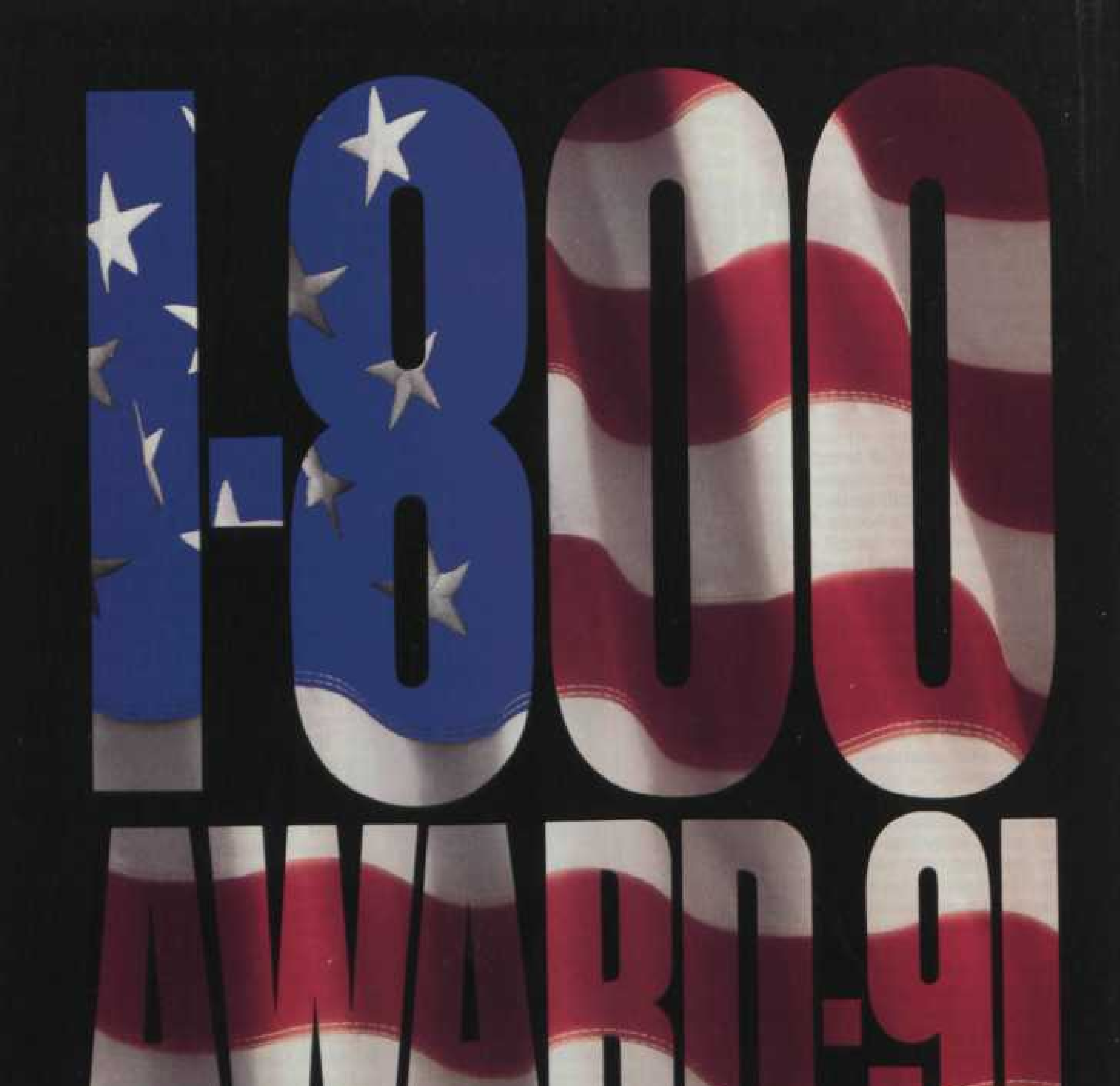
He explains: "As the business became more successful, our goal was to 'defamilyize' the running of the company, so that instead of being strictly a family structure, it should be more like a corporate structure—but with a family feeling. That way, you lose some of the emotions that come into play in a family business, and it also gives you a chance to establish middle management."

10. Don't allow family members to "squeal" on others in the organization. If they are viewed as your "spies," your children will never be trusted. One of the main purposes of having a child or a relative in the business is to have someone who can take responsibility, develop new ideas, and help expand the business and make it more profitable over time. This can be accomplished only if the family member has the confidence of other members of the organization.

Although it may be only natural for employees to voice complaints among themselves, a family member who becomes aware of such a situation should be able to handle it without "squealing" to Mom or Dad or someone else in the family. There is nothing wrong with letting a top executive know of employee complaints. However, such information should not be passed along by someone playing the role of "informant" but rather in a way that will help solve the problem.

By example and initiative, you can lead the way in establishing a solid, professional rapport between family and nonfamily employees. Communicate with staff members. Let them know at all times how much you value their connection with the business, particularly when children are first coming into the company.

Teach your children how to win the trust and respect of nonfamily employees. Explain how these two basic building blocks of a good working relationship will take time, and emphasize that trust and respect must be earned. ■



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FINANCE

Using ESOPs To Sell Your Firm

Many small-business owners ready to sell their firms find willing buyers in their employees—and tax advantages as well.

By Joan C. Szabo

When Warren Braun was ready to sell his company, he offered it to the people who worked for him.

To assure local ownership and business continuity for his firm after his departure, Braun set up an employee stock ownership plan, or ESOP.

The arrangement has proved beneficial not only to Braun but also to the employees of ComSonics, Inc., a Harrisonburg, Va., firm that manufactures and repairs equipment for the cable-TV industry. In selling his shares of ComSonics to the employees through the ESOP, Braun found a ready buyer, received a fair market value for his equity, and reaped some of the tax advantages that ESOPs offer small-business owners. The employees in turn gained an equity position in the firm along with a desirable employee benefit.

An ESOP is a tax-qualified, defined-contribution employee-benefit plan that invests primarily in the stock of the employer. A tax-qualified plan is any retirement plan that meets the requirements of the Internal Revenue Code.

ComSonics established its ESOP in 1975 by setting up a trust as a way for the employees to participate in the ownership of the company. The trust, acting for the company, bought shares over a number of years until it owned 100 percent of the company. The purchase was completed in 1985 when the trust—with money borrowed for the purpose—bought the last of the shares owned by Braun. The shares are held by the trust, and the company makes annual tax-deductible contributions to the trust so it can pay off the loan. As the loan is paid off, shares are released and allocated to the employees.

Generally, all full-time employees with at least a year of service participate in ComSonics' plan. These employees have individual trust accounts that receive allocations of stock based on the workers' compensation.

In most ESOPs, as in ComSonics' plan, the benefit is subject to gradual vesting over not more than seven years. When an employee leaves a firm, the company or the trust buys the shares back at an appraised fair market value, or, if the company is public, the employee can sell the shares on the market or hold them and sell later.

PHOTO: T. MICHAEL KEZA

Shareholders *with President Richard Biernacki of Fastener Industries.*

"The ESOP has been very successful in our organization," says Dennis Zimmerman, the new president of ComSonics. "It empowers the person on the line to work as an owner, and the most powerful decision maker you have is a person who makes decisions as if he or she were an owner."

The ComSonics experience is becoming fairly typical as the owners of small and medium-sized businesses increasingly turn to ESOPs when they are ready to sell their companies. Through an ESOP, a business owner can be compensated for years of hard work while the continuity of the business is maintained.

"ESOPs often work best in circumstances where the owner is getting out of the business or where there already is the expectation or reality of some level of public ownership within the company," says Mary Smalligan, a tax partner with the accounting firm of Deloitte & Touche in San Francisco.

Statistics show that half of all ESOPs are used to provide a market for the shares of a departing owner of a profitable, closely held company, says the National Center for Employee Ownership (NCEO), a private, nonprofit information and research organization in Oakland, Calif. Most other ESOPs are used either as a supplemental employee-benefit plan or as a means for companies to borrow money in a tax-favored manner. Less than 4 percent of the plans are used either as a defense against a hostile takeover or to save a failing company.

ESOPs can be leveraged or unleveraged. A leveraged ESOP borrows money to buy stock. An unleveraged one is funded with cash contributions from the company, which are used to purchase stock from the company or from current stockholders.

If the company's shares are not publicly traded, their purchase price is established by an independent business appraiser. The ESOP cannot legally pay more than the fair market value of the shares.

Although the ESOP concept was developed in the 1950s, it wasn't until 1974 that Congress recognized ESOPs as qualified employee-benefit plans and gave them tax advantages. Until ESOPs became an attractive way to transfer ownership, a business owner who wanted to leave a firm could pass it on to family members, sell it to another company, or close it. The ESOP option enables an owner to sell the business to the employees and take advantage of tax benefits. Among those benefits:

- If after the sale at least 30 percent of a private business is owned by an ESOP, the seller can avoid current tax on the gain by using the proceeds to buy stocks or bonds of another U.S. industrial company.
- If an ESOP owns more than 50 percent of the company, those who lend money to the ESOP are taxed on only 50 percent of the income received on such loans.
- A company can deduct both principal and interest payments on an ESOP loan.
- The dividends that a business pays

FINANCE

on the stock held by the ESOP are treated like interest—as a deductible expense.

Among the advantages of ESOPs is that they can fund not only retirement plans but also other benefits, such as retiree health-care coverage. In addition, since the rate that lenders charge on an ESOP loan is about 1 1/2 percentage points below a company's normal borrowing cost, having an ESOP can enable a company to obtain reduced-rate financing to assist growth.

Employees also fare well with ESOPs. A recent study from NCEO shows that an employee now making $20,000 a year and participating in a typical ESOP would accumulate $31,000 over 10 years and $83,000 over 20 years in 1990 dollars.

Because of the benefits they offer, ESOPs have experienced solid growth in the past 15 years, from 1,601 plans covering 248,000 employees in 1975 to more than 10,000 plans covering more than 11.5 million employees in 1990. ESOPs have been growing by 600 to 800 plans a year, covering 600,000 to 1 million new employee participants. ESOPs now control close to $60 billion in corporate stock, says NCEO.

ESOPs vary in how much ownership employees actually receive. It is esti-

PHOTO: MIKE STEINBERG—BLACK STAR

ESOP spells *incentive at ComSonics, says President Zimmerman.*

mated that about one-third of the plans are designed to own a majority of the company's stock; the median level of ownership is about 30 to 40 percent.

An example of a company that has benefited from the ESOP experience is Fastener Industries of Berea, Ohio. Fastener Industries has 170 employees and markets fasteners for the metalworking industry under the name of Ohio Nut & Bolt Division. The company's ESOP was set up in 1980 when the owner, Rod Whelan, was ready to retire. Richard Biernacki, current president of the company, says he suggested the Whelan family consider an ESOP as the best way to complete the sale. They agreed, and an ESOP was established.

The ESOP has been "financially beneficial to all the employees," Biernacki says. "There haven't been any layoffs right through the rough period in our industry, which was in the early 1980s. Financially we managed to weather that storm, and we have been reaping the benefits since." He says that the employees as part owners were committed to pulling the company through the tough times.

Despite the many advantages ESOPs offer, they are not appropriate for all companies. Some owners who aren't ready to retire may not want to give up any portion of control. In those circumstances, says accountant Smalligan, "we recommend a type of phantom stock plan. If you want employees to feel some level of ownership in the business and to be economically interested in seeing that it does well, you can design a compensation plan that is geared around something that behaves similarly to stocks, but isn't stock."

In addition, a company that has an ESOP cannot elect S corporation status. An S corporation (named after the section of the tax code that authorizes it) enjoys some of the advantages of an incorporated business, such as limited liability, but it is not subject to the double taxation of dividends, which is a major complaint of regular corporations and their shareholders. A company that finds S-corporation status attractive would probably also find it more beneficial than forming an ESOP, Smalligan says.

ESOPs also can be expensive to set up. The legal, accounting, actuarial, and appraisal fees for a small or midsized firm can total about $50,000. In addition, there are annual expenses of about $10,000 to $15,000. Experts say that ESOPs don't work well in firms that have fluctuating payrolls and profits.

Because the annual contribution to the ESOP is tied to the amount of employee-qualified payroll, a company needs a minimum payroll of about $500,000 for an ESOP to work well, says William Falvey, with Deloitte & Touche's Actuarial, Benefits, and Compensation Consulting Practice. He also notes a few other points about ESOPs that a business owner should consider. For example, the ESOP is intended to cover all employees, and it requires the owner to disclose certain information about the company, its performance, and its key executives' salaries.

Another potential drawback can arise from certain restrictions on allocations of purchased shares to ESOP participants. If the selling shareholder elects to avoid current taxation on the gain from the sale of the corporate stock to the ESOP, then in almost all circumstances the purchased stock may not be allocated to the family of the selling shareholder, or to anyone who owns 25 percent or more of the shares, or to the selling shareholder if the seller continues to participate in the plan.

Advocates of ESOPs say that any disadvantages are generally outweighed by the advantages for small and midsized companies. Since becoming employee-owned, Fastener Industries has made a profit every year in an industry that has lost 40 percent of capacity.

At ComSonics, William MacIntyre, the company's finance director, sums it up this way: "Once our employees received control over their own destiny, the company did a whole lot better. For our company, that is a very important and tangible benefit." NB

To order reprints of this article, see Page 73.

Direct Line

In which experts answer our readers' questions about starting and running their businesses.

By Meg Whittemore

ARTS AND CRAFTS

Pots And Plans

I make unique pottery items in my home and sell them to individuals and small shops in my hometown. How can I expand my reach to new customers?
K.W., Midland Park, N.J.

The American Society of Artists offers a free list of craft shows nationwide and of galleries and shops looking for crafts. Contact the association at Box 1326, Palatine, Ill. 60078; (708) 991-4748.

You also could join the Society of Craft Designers. Its list of reporters covering the crafts industry could connect you with writers who might make your wares more widely known. You can write or call the society at 6175 Barfield Rd., Suite 220, Atlanta, Ga. 30328; (404) 252-2454.

INSURANCE

Pet Project

I would like to know what is needed to start a health-insurance company for pets.
J.M., Bel Air, Md.

Veterinarians and experts in personal health insurance suggest that establishing a company to offer health insurance for pets would cost up to $1 million, largely to meet bond requirements.

ILLUSTRATIONS: DAVE ALLEN

These sources recommend that you consider a less expensive start-up—an independent health-maintenance plan for pets, with participation by veterinarians and animal hospitals in your area.

Such plans typically cover all emergencies and annual vaccinations and offer discounts on over-the-counter health products for pets, says Debby Toistoy, office manager for a Washington, D.C., animal hospital.

Her veterinary group decided to take part in a prepaid health-maintenance plan that has enrolled 300 of the pets treated at her hospital. Each animal's owner pays $75 to $200 a year, depending on the animal's age, size, reproductive capabilities, and whether it is kept indoors or outside.

To learn more about Toistoy's experience with the plan, you may contact her at the Friendship Animal Hospital, 4105 Brandywine St., N.W., Washington, D.C. 20016; (202) 363-7300.

PAPERWORK

Looking Ahead

I own a cleaning business that I run out of my home. I would like to know how I can get help on making job estimates and writing contracts.
M.L., Phoenix, Ariz.

The Building Service Contractors Association International can send you a free publications catalog, which includes books on how to figure estimates, write contracts, and bid on projects.

To obtain more information, you can write or call the association at 10201 Lee Highway, Suite 225, Fairfax, Va. 22030; (800) 368-3414.

TRADE SHOWS

On The Home Front

Where can I get information on all the various trade shows offered in the United States?
P.H., Portsmouth, N.H.

The *Tradeshow Week Data Book*, an annual directory published by *Tradeshow Week* magazine, lists major U.S. and Canadian trade shows for the coming year, costs $265, and can be ordered by calling (800) 521-8110.

Each weekly issue of the magazine includes a list of trade shows scheduled six months to a year from the date of publication. A subscription to the magazine, at $289 a year, can be ordered from *Tradeshow Week*, 12233 West Olympic Blvd., Suite 236, Los Angeles, Calif. 90064; (213) 826-5696.

SERVICES

Money Laundry

Please tell me where to get information on opening a coin-operated laundry.
J.P.M., Memphis, Tenn.

The Coin Laundry Association's free "Going Into Business" packet contains basic information on starting a coin-operated laundry.

The association also offers regional workshops on trends, techniques, and management issues within the self-service-laundry industry.

For a copy of the start-up information and a workshop schedule, write or call the Coin Laundry Association, 1315 Butterfield Rd., Suite 212, Downers Grove, Ill. 60515; (708) 963-5547.

HORTICULTURE

A Growth Industry

I want to open a small gardening center and plant store. Where do I start, and how do I locate suppliers?
G.W., Austin, Texas

The American Association of Nurserymen will send you, at no charge, a pamphlet containing an outline of what you need to start your business. The outline covers capital requirements, staff size, inventory, bookkeeping, and state and local regulations as well as local zoning laws.

For a list of suppliers, you can contact the Wholesale Nursery Growers of America.

Both organizations are located at 1250 I Street, N.W., Suite 500, Washington, D.C. 20005; (202) 789-2900.

RETAILING

The Heights Of Fashion

I plan to open a retail clothing store specifically for tall women. How can I locate suppliers and distributors?
R.T., Cincinnati

The American Apparel Manufacturers Association publishes a directory of 450 manufacturers, listing types of garments made by each. Some distributors are included in the publication.

To order the 1991 directory, send a $100 check or money order—payable to the American Apparel Manufacturers Association—to the organization at 2500 Wilson Blvd., Suite 301, Arlington, Va. 22201; (703) 524-1864.

Best Foot Forward

I am interested in opening a shoe store in a small town. Please tell me where to get information to get started.
D.S., Tremont, Ill.

The National Shoe Retailers Association offers educational seminars, publications, and consulting services to shoe-store operators. The association's manual, *Planning Your Business*, contains information for the independent shoe retailer on planning, profits, cash flow, sales, advertising, personnel, and purchasing.

The manual costs $5 from the National Shoe Retailers Association, 9861 Broken Land Parkway, Columbia, Md. 21046; (301) 381-8282.

WOMEN'S ENTREPRENEURSHIP

Finding Funding

Is there any financing available for women who want to start their own businesses? I need all the information that I can get.
C.C., Kissimmee, Fla.

Start with the Office of Women's Business Ownership (OWBO) at the U.S. Small Business Administration. The OWBO offers national seminars, conferences, trade missions, and a host of information resources to guide prospective entrepreneurs toward successful business ownership.

The OWBO is not a source of financing, but it does provide tips on obtaining funding, such as how to fill out and then present a bank-loan application and what to put into a business plan.

You can write or call the Office of Women's Business Ownership at 1441 L Street, N.W., Washington, D.C. 20416; (202) 653-7954.

Another good source on funding for start-ups is the National Association of Women Business Owners, 600 S. Federal St., Suite 400, Chicago, Ill. 60605; (312) 922-0465.

SUPPLIERS

For Games People Play

I am seeking a list of suppliers of arcade equipment such as pinball machines and video games.
G.H.M., North Adams, Mass.

A comprehensive directory of arcade suppliers appears each year in the September issue of *RePlay* magazine, a trade publication for the coin-machine industry. To order a copy, send a $25 check to *RePlay*, P.O. Box 2550, Woodland Hills, Calif. 91365.

For general information on the amusement-arcade industry, write or call the Amusement and Music Operators Association, 111 E. Wacker Dr., Suite 600, Chicago, Ill. 60601; (312) 644-6610.

The American Amusement Machine Association may also be able to help you. The association will host its annual American Coin Machine Exposition in Las Vegas in March.

For more information, contact the association at 12731 Directors Loop, Woodbridge, Va. 22192; (703) 494-2758.

HOW TO ASK

Have a business-related question? Send your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

THIS MONTH'S MOST-ASKED QUESTION

Financial Consultants

As a small-business owner, you make decisions every day that directly affect your company's profits. Nonetheless, you may feel sometimes that you need advice on financial decisions for your firm. The volume of queries to Direct Line on financial-management matters indicates that many business people want to know more about finding and using a financial consultant.

"Basically, a financial planner really helped me open my eyes about how I was expanding my business," says Roger Telschow, who runs a small printing business in Silver Spring, Md. Before buying equipment or expanding, he says, a financial consultant helps him compile projections of how the action would affect cash flow, sales, profitability, productivity, and other aspects of the business. Fees for such help can range from $500 to $2,000, depending on the complexity of the analysis.

"Choose a financial consultant in the same way you choose your lawyer, accountant or any other adviser," says Andrew Sherman, a Washington, D.C., lawyer who advises growing companies. "First, ask your friends, colleagues, or any trusted adviser whom they recommend."

Then check the free information published by the International Association for Financial Planners. According to advice offered in the association's brochure *Financial Planning Consumer Bill of Rights*, your financial consultant should be a certified financial planner (CFP), or a chartered financial consultant (ChFC), or a certified public accountant (CPA). The brochure also covers the requisite elements of a financial consultant's experience, training, and service.

The association offers other helpful brochures on financial consultants. One is the *Consumer Guide to Financial Independence*, which describes financial planning and shows how to set financial goals and manage your money. Another is the *Registry of Financial Planning Practitioners*, a state-by-state directory of financial consultants who meet the association's stringent requirements on experience, education, and knowledge of the practice.

For free copies of the above brochures, contact the International Association for Financial Planners, Two Concourse Parkway, Suite 800, Atlanta, Ga. 30328; (404) 395-1605. ■

To Your Health

Managing well includes managing your own health; here is advice to help you do that better.

By Elizabeth J. Natelson

How To Beat The Drag Of Jet Lag

Horst Oeckinghaus of Augusta, Ga., vice president of a medical-products manufacturer, crisscrosses the globe on business flights. For him, jet lag has been a torment. "My brain felt like it was soaked in molasses," he says. "To negotiate contracts when your brain is at half speed is very risky."

Jet lag strikes when a change in time zones unbalances our "circadian rhythms"—our biological clocks—says Dr. Russel J. Reiter, a neuroendocrinologist with the University of Texas Health Science Center at San Antonio.

The body's inner clock is set by the pineal gland, a tiny organ in the brain. Certain eye cells send light and darkness messages to the pineal, which, in turn, releases melatonin (a sleep-related hormone) in response to darkness. An abrupt change to a new time zone disrupts this gland, throwing melatonin production—and the rest of the body—out of kilter.

Melatonin pills will be commercially available within a few years and will provide an effective antidote to jet lag, Reiter says.

A different approach to overcoming jet lag comes from Dr. Charles Ehret, a pioneer chronobiologist, co-author of *Overcoming Jet Lag* (Berkley Books), and president of General Chronobionics, a Hinsdale, Ill., consulting firm. All body systems are intertwined and profoundly "chronotypic," he says. That is, they change with the time of day.

Jet lag can strike the moment one steps off the plane. Just as the inner clock chimes, say, 2 a.m., the person is walking about, seeing the sun overhead, hearing people in conversation, and smelling the aroma of cooking food. Such external events irresistibly affect the traveler's internal sense of time—so much so that chronobiologists call them *zeitgebers* (German for "time givers").

Ehret's discovery, while researching at Argonne National Laboratory, near Chicago, was that travelers can use *zeitgebers* to beat jet lag. Here is his system:

Elizabeth J. Natelson is a free-lance writer in Salt Lake City who specializes in health topics.

Before the trip. Beginning three days before departure, prime your body with a feast-fast-feast-fast eating schedule. That is, feast the first day, fast (eat lightly) the second, feast the third, and then fast until you eat breakfast by destination time. The fasting serves to run down your body's supply of glycogen (stored energy), weakening your inner clock's resistance to change.

Choose your foods carefully. High-protein meals wake up the body, so eat them for breakfast and lunch. Carbohydrates slow your system down; save them for dinner.

In flight. Six *zeitgebers*, carefully controlled, can quickly reset your inner clock:

- Meal timing: Schedule your meals according to your destination's time zone. When it's noon where you're going, eat lunch.
- Meal quality: Continue to eat high-protein breakfasts and lunches and high-carbohydrate dinners. Drink plenty of fluids to avoid dehydration.
- Drugs: Don't use caffeine, which strongly affects the biological clock, and avoid alcohol. Ask your doctor about any prescribed medications; some vary in effect with the body's daily rhythms.
- Light: When it's daylight at your destination, turn on the light over your seat. When it's night there, turn your light off, pull down the window cover, and wear an eyeshade or sunglasses.
- Exercise: Be active when it's daylight at your destination. Stretch, bend, and walk down the aisle.
- Social interaction: Chat with your neighbors on the plane—but not at 4 a.m. destination time! Social contact is a powerful *zeitgeber*.

At your destination. Spend daylight hours actively, walking outdoors and talking with people. This is the critical time to solidify your gains. Don't take any naps or use room service. When the day is over, go to bed on time.

The effect of these measures, Ehret emphasizes, is to reduce both the severity and the duration of jet lag. Most travelers suffer one day of symptoms for every time zone crossed. A flight that spans six time zones requires six days for recovery. But with carefully controlled *zeitgebers*, jet-lag symptoms are mild and disappear altogether in one to three days.

An expanded, computerized version of Ehret's system is available from Kinetic Software of Woodside, Calif., at (415) 851-4484. The Jet Ready Program, which provides a personal plan for overcoming jet lag, is designed for those who fly far and frequently, zigzag among time zones, or dash to engagements right off the plane. The complete program may be purchased directly from Kinetic Software for $975 a year (it is updated several times a year), or a plan for a single travel itinerary can be ordered for $25 from Kinetic Software or a growing number of travel agents.

PHOTO: IRA WEXLER—FOLIO, INC.

Hopscotching across *time zones can give travelers a bad case of jet lag.*

Using Ehret's system, Horst Oeckinghaus no longer gets jet lag. He tells of a trip from Georgia to Japan using the Jet Ready Program: Arriving at night, he slept normally, woke up refreshed, and met with customers all day and into the evening. From there he continued around the world, stopping in country after country.

"I had no problems at all," Oeckinghaus says. "If I hadn't experienced it myself, I'd say it's impossible." NB

For Your Tax File

What you need to know to keep taxes from overtaxing you.

By Albert B. Ellentuck

DEDUCTIONS

Commuters Get A Break

A recent change in the tax rules could help cut your net cost of commuting. The Internal Revenue Service, altering its guidelines in this area, has decided to allow deductions for the cost of commuting to temporary work sites.

This new IRS ruling also will open up additional deductions for many small-business people who visit their customers. Those who repair televisions and appliances or who run delivery services, for example, could claim such deductions on their tax returns. So too could real-estate developers, builders, doctors, lawyers, architects, engineers, accountants, and others when they travel directly to workplaces other than their regular offices.

There are two basic rules for deducting business-commuting expenses: You can write off the costs of travel between your office and a business destination, but you cannot deduct the costs of traveling between your home and your regular office.

In the past, many businesses followed the practice of having their employees travel to the office in the morning before going out to a temporary job site. Separated into two trips, the distance to the job site was clearly deductible.

PHOTO: DAVID LIBBY—FOLIO, INC

Your drive *to a temporary worksite now may be deductible.*

The office stop seems unnecessarily wasteful, however, particularly in light of the current high price of gas. Fortunately, it is no longer necessary.

An employee with at least one "regular place of business" can now deduct the unreimbursed cost of commuting from home directly to a "temporary work site."

For a sole proprietor or a partner, commuting costs of that type will now be fully deductible.

Employees also can deduct these costs, but only as miscellaneous itemized deductions, which are subject to the 2 percent floor. However, when the employee is reimbursed by the employer, the employer is not required to report the reimbursement on a Form W-2. In addition, the employee need not include the amount as income.

Because this ruling by the IRS is considered an interpretation of existing tax law, taxpayers will be permitted to amend their prior open-year returns in order to take these deductions and claim tax refunds. ■

SELF-EMPLOYMENT

Targeting Abuses On The Side

The Internal Revenue Service is on the warpath again. This time it is gearing up for a major campaign targeting self-employed taxpayers.

The government has long suspected that self-employment is an area of widespread abuse. The IRS is expected to zero in on a number of potentially wrongful practices.

High on the agency's list are those taxpayers who are employed full time by companies and also file Schedule C as part of their tax return.

Schedule C is basically a statement of taxable income and deductible expenses for any business conducted as a sole proprietorship.

Keep in mind that as a sole proprietor, an employee can deduct expenses of that business directly on Schedule C and avoid the 2 percent floor on miscellaneous deductions that are claimed on a personal tax return; the taxpayer cannot use Schedule C's favorable treatment for expenses that have been incurred as an employee.

A recent case gives us some insight into the type of situation that has caused concern at the IRS.

The taxpayer worked full time for a telephone company and began working in his spare time as a direct-sales distributor for a household-products manufacturer.

He filed a Schedule C as part of his individual return, reporting gross receipts of $981 in 1983 and $867 in 1984. He claimed expenses of $23,188 in 1983 and $17,300 in 1984.

The deductions included car and truck expenses, depreciation, legal and professional fees, charges for utilities and telephones, continuing-education fees, and expenses for promotion, security, travel, and entertainment.

The taxpayer offered little evidence that his sales activities required him to do anything other than maintain an active social life. Most of his sales efforts appear to have involved taking friends to restaurants and having parties.

The court summed up the taxpayer's tax philosophy: "If it moves, deduct it; if it is stationary, depreciate it." Not surprisingly, the court disallowed the losses on the ground that the distributorship was not "engaged in for a profit."

In other words, the court said, it was not a real business.

Certainly those taxpayers who have legitimate activities to report on Schedule C should not be intimidated by the IRS campaign.

Nonetheless, it is important to be able to show a profit motive and not to use Schedule C as a dumping ground for otherwise nondeductible personal expenses. ■

Albert B. Ellentuck is a tax accountant in Washington and author of The Small Business Tax Planning Guide *(Avon). Readers should see tax and legal advisers on specific cases.*

It's Your Money

A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.

By Peter Weaver

DOMESTIC EXPENSES

Tax Forms And Insurance For Household Employees

Item: A baby sitter who regularly tends a 4-year-old sues the parents because of an injury sustained on their darkened basement stairs.

Item: The Internal Revenue Service demands back tax payments and major penalties because a family's longtime, once-a-week maid filed for Social Security retirement benefits.

In each of these cases, otherwise sophisticated people lost a lot of money because they didn't know about the yardage of red tape that's now wrapped around household employer-employee relationships.

If you employ a baby sitter, nanny, maid, cook, gardener, or companion for an elderly parent on a regular basis, you might be exposed to a costly lawsuit or tax penalties because of unwitting infractions of state or federal laws.

"Hardly anyone knows about these traps," says Vic Sanders, senior vice president of the Rust Insurance Agency in Washington, D.C. Sanders' agency now advises its Maryland and District of Columbia homeowners' insurance clients about the necessity of obtaining workers' compensation insurance for their household employees.

In the nation's capital, according to Sanders, "the law requires that all employers carry workers' compensation insurance if their domestic employees work 240 or more hours during a 13-week quarter." In Maryland, he says, "all employers must carry workers' compensation insurance if their domestic employees are paid $250 or more in any calendar quarter."

As you can see, it's very easy to fit

PHOTO: JERRY MESMER—FOLIO, INC.

If you hire *someone to care for an elderly relative, you may have a lot of tax complications to think about.*

into those minimum quarterly requirements. But the law varies from state to state. Some states base minimums on the amount of pay, others on the number of hours worked, and some don't require any special insurance for domestics.

The agency or company that handles your homeowner's policy should be able to explain the law regarding domestic employees in your area or tell you where you can get more information.

Your insurance company should also be able to point out a line or paragraph in your homeowner's policy that invalidates liability coverage if your domestic employee qualifies for state-regulated workers' compensation insurance and you don't have it.

Federal law covers every domestic employee in every state, of course, and it can be tough on the unwitting employer. According to an Internal Revenue Service spokesman, "If you pay wages of $50 or more during a calendar quarter, you're subject to the rules involving FICA withholding [Social Security tax]." You must make quarterly payments, using IRS Form 942.

Then there's the federal tax covering unemployment-compensation insurance for domestic employees who are fired or otherwise let go. To qualify for this mandatory benefit, according to the IRS spokesman, "your employee must make $1,000 or more in any given calendar quarter." That's around $77 a week—not all that much for today's various types of domestic help.

You make quarterly unemployment-tax (FUTA) payments by using IRS Form 940-EZ. You can get more information by reading IRS Publication 926—*Taxes for Household Employers*.

As for income-tax withholding, the IRS says it's voluntary—something you and your employee agree to do or not to do.

You may not have to become involved in all this flurry of forms and payments if an agency provides your household help. Some agencies do all that work, but they usually charge higher hourly rates to cover the costs of doing it. ■

AUTOMOBILE RENTALS

Fill It Up Before You Return It

The recent gasoline price hikes have made it more important than ever to fill the gas tank before you turn in a rental car. The rental agencies always tell you that if you bring the car back with less than a full tank, you'll be charged for the gas they put in. What they don't tell you is how much they charge.

"Around here," says Ken Andrews, manager of Airport Citgo at Boston's Logan Airport, "they're charging $1 to $1.50 above our regular pump price."

According to Stan Schuer, executive director of the Gasoline and Automotive Service Dealers Association, "you should keep your eyes open for a convenient service station on your way out of the airport." Otherwise, you might pass up the last station on your return.

Actually, you don't need to pick a station all that close to the rental-car return lot. "You can get gas 10 miles or more from the airport," Schuer says, "because most car gauges register full when you're down a gallon or so." If your car gets 20 or more miles to the gallon, as most do, you're in the clear. ■

Peter Weaver is a Washington-based columnist on personal finance.

INSURANCE

Is Mortgage Disability Insurance A Good Deal?

For years mortgage lenders have offered life insurance designed to pay off the remainder of your debt if you die. Now some lenders have added disability insurance to the package. Is it a good deal?

"It's a good idea to have a sufficient amount of disability insurance," says Robert Hunter, who heads the National Insurance Consumer Organization, "but it's not a good idea to have it connected to your mortgage."

Victoria Felton-Collins, a financial planner and author of *Couples & Money* (Bantam), and Hunter agree that you should have the proper amount of disability insurance to cover an array of financial needs, not just your mortgage payments.

They also agree that taking on a mortgage is a good occasion to review the disability insurance you may have through your place of employment, to see if it really will cover a long-term disability caused by an accident or illness. "Many employer plans have significant limitations," says Jack May, a financial planner with Manna Financial Planning Group in Fairfax, Va. These limitations can include the length of coverage (for so many months and no more) and the definition of disability (payment stops if you can do any kind of work, not just your current job).

Obtaining disability insurance to cover the mortgage, taxes, utility bills, home care, and other bills is especially important for single people. Before age 65, "there's a much greater possibility of becoming disabled as opposed to dying," May says, "and you have to ask yourself: Who's going to help me out if I can't work?"

Married couples also need a certain amount of income-protection insurance.

Here is a checklist of points you should consider concerning disability insurance:

- What does your employer cover?
- How long would your savings last?
- Could you get family help?
- How much individual insurance do you need to fill the gap?

RECORD KEEPING

Three Financial Records You Must Keep Long-Term

As the new tax year begins, it's time to consider the records you must keep. Gary Parker, partner in the New York accounting firm of Parker and Recenello, lists three vital sets of financial records many taxpayers forget to retain on a long-term basis:

■ **Home-sale documents.** "Every time you sell a house and defer the capital gain," Parker says, "you should file IRS Form 2119 electing to postpone the gain." You can qualify for the deferment if the new home costs as much as or more than the one you sold.

If you decide to move into a smaller, less expensive home later in life, the tax basis of the home you're selling will reflect the fact that you deferred gains on all your previous homes. The overall gain may be much bigger than you think because it stretches all the way back to your first home. "If you don't have those IRS 2119 forms that spell out all of the gains you made," Parker says, "the IRS could challenge your figures and ask for more tax than you really owe."

You can reconstruct the capital-gains chain by going back to various county clerks' offices, but that can be tedious. Keeping proper records is easier.

■ **Home-improvement receipts.** "Most taxpayers do not realize the absolute necessity of saving all receipts or canceled checks pertaining to home improvements," Parker warns.

Those improvements can include items such as landscaping, burglar and fire alarms, new roof, new windows and doors, shutters, refurbished bathroom, den, driveway, and on and on.

PHOTO: DON HAMERMAN—FOLIO, INC.

When you sell *your home, you'll need good records of improvement costs.*

Such expenses, Parker says, "really add up over the years, and they can beef up your cost basis enormously." Obviously, the bigger your cost basis, the less capital gain you have, and the less tax you have to pay eventually.

■ **Stocks and bonds.** You should keep records of all the securities you own—what you paid for them, and whether there were stock splits or dividends. Without this information, Parker says, "the IRS can nail you with an arbitrary zero-cost basis and force you to prove otherwise." And proof is hard to come by without receipts. Brokerage firms may have discarded your records if you moved your account.

TRAVEL

Checking Out Traveler's Checks

If you're traveling abroad, whether for business or pleasure, you'll need to play it safe by taking some traveler's checks with you. But what kind? Should they be in dollars, pounds, yen, francs, marks, or a combination of currencies? Does it make any difference whether the checks are issued by American Express, Thomas Cook, Barclay's Bank, Citicorp, Bank of America, or some other institution?

"If you know you'll be spending all or most of your time in a specific hard-currency country, it's a good idea to purchase some traveler's checks in that currency before you leave," says David Montgomery, a spokesman for Deak International, a currency-exchange firm with offices around the country.

On the other hand, if you will be visiting several countries, Montgomery thinks you may be better off using traveler's checks in dollars. Otherwise, you'd be forever switching from one packet of hard-currency checks to another, and you might have a bunch left over after your trip.

Balancing that consideration has been the recent weakness of the dollar. Jeannie Weaver, executive vice president of Ruesch International, another currency-exchange firm, suggests that you might want to hedge your bets by carrying half of your money in dollars and half in Swiss francs.

Montgomery and Weaver also recommend that you take along $100 to $200 cash in the currency of each country on your itinerary. "This is walking-around money," Montgomery says, "and you'll always need it on your arrival to pay for cabs, tips, an airport-bar tab, or whatever."

When you're changing your dollar-denominated traveler's checks into another currency, Montgomery says, "your best bet is a local currency-exchange bank." If you're using American Express checks, exchange them at one of that company's offices. "Hotels and airports are notoriously expensive for changing money," Montgomery warns.

If your local bank doesn't have the foreign-currency cash you need, you can order some from Deak International by calling (800) 368-5683, or from Ruesch at (800) 424-2923. They both will send currency by insured registered mail or Federal Express, at your option.

As for which brand of traveler's checks you choose, a lot depends on what your bank has to offer—such as low fees or no fees. (In addition, the American Automobile Association issues American Express checks to members without charging a fee.)

American Express, Thomas Cook, and Visa offer fast refund service for lost or stolen checks.

Franchising

A sampling of strategies that can help franchises survive the economic downturn.

By Meg Whittemore

Resilience For The Recession

Franchising has long been heralded as the business method that weathers most economic storms because it rapidly adapts to shifting consumer demands and fits into virtually any marketplace.

The resilience of franchising will be crucial as the economy struggles to right itself in the year ahead. In this downturn, experts say, the successful franchises will be those that offer affordable, time-saving services and products.

Here are examples of franchises designed to meet just those types of consumer needs, such as saving time at mealtime, bringing business sellers and buyers together, and making fast food more mobile.

Desktop Dining. Years ago there was the so-called three-martini business lunch. Then came the power breakfast. Now, busy executives are dining in—at their desks. For those too pressed for time to leave the office for lunch, desktop dining has arrived.

Two entrepreneurs who wasted no time capitalizing on the needs of at least one portion of the burgeoning brown-bag crowd are David Klein and John Cotugno. Together they turned Wee-Bag-It—a small, struggling, lunch take-out business in Boca Raton, Fla.—into a thriving franchise catering to executives. There are now five Wee-Bag-It franchises, all in Florida. Start-up costs for a Wee-Bag-It range from $80,000 to $100,000.

Klein and Cotugno transformed the business by enlarging the kitchen with commercial equipment for large-scale meal preparation, giving the menu an upscale flavor, and delivering lunches to people in their offices. A typical Wee-Bag-It lunch costs $7 or $8. It includes the soup of the day, a sandwich made with fresh meats, plus vegetables, rolls or croissants, freshly made cookies, and a beverage made with natural juices.

According to recent studies by the U.S. Labor Department, almost 40 percent of the nation's workers feel they cannot afford the time or the money to eat lunch away from the workplace. "Wee-Bag-It is the first [upscale] multiple-unit franchise to reach this huge market," says Klein.

Matchmakers. Having the right connections can make life a little easier if, for example, you're trying to find a new job—or trying to buy or sell an independent business or a franchise. A Denver-based matchmaking service, The Business Connection (TBC), brings buyers

and sellers together through a database clearinghouse that operates much like a dating service. With information supplied by the potential buyers and sellers themselves through questionnaires, TBC compiles confidential profiles on each party to a possible match. The profiles include the type and location of the business being sold or sought, as well as participants' price ranges and investment capital.

A buyer who wishes to be in the database for a year and receive information on businesses in all industry sectors pays $499. Or, for $99, a potential buyer can receive information on companies in just one sector for three months.

A seller pays an initial fee of $599 for a year. If the business is sold through TBC, the seller pays TBC an additional $500 after the sale is completed.

For their investment, sellers receive access to TBC's qualified-buyers list, which saves them the costs and trouble of advertising on their own. Buyers who do their franchise shopping through TBC can find they save a lot of valuable time in the investigative phase of acquiring a business.

"We have independent business sellers, franchisors, and franchisees in our system, and, of course, the buyers," says John O'Brien, president of TBC. "Once the two parties meet and proceed to make a deal, we have a referral network to help them close the transaction." The network consists of lawyers, accountants, and other professionals who can help complete a transfer of business ownership. The professionals' fees are paid by the buyers and sellers.

Upscale brown bags *for desktop executive dining from Wee-Bag-It.*

TBC plans to establish a nationwide database modeled on its operation in the Denver market—where TBC has been successful, O'Brien says. He says that he expects three-fourths of the 65 sellers now listed in the Denver database to be sold through the matchmaking service; the database currently has 400 potential buyers listed.

Fast-Food Future. Franchises that offer fast food will never change, right?

Wrong, says Fred DeLuca, founder and president of Subway Sandwich Inc. According to DeLuca, the entire industry will be computerized by 2000, and robots will be taking customers' orders.

De Luca also says that a customer who phones in an order will get more than a sandwich delivered; the entire franchise will arrive at your door—in a mobile unit. DeLucz calls it mobile franchising.

Other fast-food predictions from DeLuca:

- Biodegradable plastic bags will be standard, and fast-food containers will be reusable.
- High schools, hospitals, airports, colleges, and sports facilities will have fast-food franchises.
- French fries will be cooked without oil, and zero-fat dairy products will be available in all restaurants. NB

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1. How do current fuel prices affect your bottom line? (Check one)

a) Greatly
b) Moderately
c) Somewhat
d) Slightly
e) Not at all

2. How do higher energy taxes affect the general economy?

a) Curb growth
b) Intensify inflation
c) Ease pressures for raising other taxes
d) Lead to higher federal spending

3. How have you reacted to increased energy costs?

a) Cut business use of energy
b) Cut nonenergy spending
c) Cut personal use of energy
d) Taken no action

4. What approaches should the U.S. take to meet its energy needs?

a) Encourage domestic production and conservation
b) Increase taxes to discourage energy use
c) Eliminate excessive regulatory barriers to energy development
d) Adopt a broad, multifaceted policy

5. How should U.S. dependence on imported crude oil be reduced?

a) Increase domestic supplies
b) Make greater use of nuclear energy and coal
c) Make greater use of such alternative sources as ethanol, solar power, and wind power
d) Open presently restricted areas to oil and gas production

6. How should the environment affect energy policies? (Check one)

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Editorial

The Same Old Faces Should Not Mean The Same Old Policies In Congress

The 102nd Congress convening this month will be little changed from its predecessor.

More than 90 percent of the members of the new Congress also served in the previous one. The awesome power of incumbency was demonstrated once again in the victories of 391 of the 407 members of the House and 31 of the 32 senators who sought re-election.

But lawmakers must now deal with another set of numbers, those that make up the economic forecast for 1991. (See the Cover Story, on Page 16.) They are not as appealing as the election returns were for the winners. The chart on this page shows why. Economic forecasters at the U.S. Chamber of Commerce expect that the unemployment rate, which stood at 5.2 percent in the first quarter of 1990, will exceed 7 percent in the final months of the new year.

Those statistics are part of a gloomy outlook for overall economic growth.

The major challenge for the new Congress will be to try to ease the depth and duration of the recession and put the nation back on the road to economic growth.

As we note in the second part of this month's cover package, "The Federal Impact On Business," on Page 23, actions of the past Congress accelerated the recession, and lawmakers must now choose between those policies and a pro-growth course.

One thing that members of the 102nd Congress should definitely not do is assume that their high survival rate represents a mandate for business as usual.

While voters re-elected the vast majority of incumbents who wanted to keep their seats, they also sent some strong signals that their patience is running thin.

One of the most powerful signals came from New Jersey voters, who were faced with a massive increase in state taxes. Democratic Sen. Bill Bradley, who had won in 1984 with 64 percent of the vote, nearly lost his seat to an unknown candidate running with shoestring financing. The reason: Bradley was the first available target for voters outraged by the tax increase engineered by Democratic Gov. James J. Florio and approved by the Democratic-controlled Legislature.

The Bradley experience should be very much in the minds of members of the new Congress who will seek re-election in 1992 when the inevitable proposals for further increases in federal taxes arise.

House incumbents who won re-election should be particularly aware of the fact that the average vote percentage for incumbents seeking to return to that body declined to 63.5 in the last election from a high of 68.2 in the previous two elections. An analysis by *Congressional Quarterly Weekly Report* also shows that some 50 incumbents saw their vote percentages decline by at least 10 points from 1988. The decreases went as deep as 27 percentage points in House races and 22 points in Senate contests.

In California, for example, voters in two districts showed a bipartisan spirit of anti-incumbency by ousting a Democrat who had won four previous terms and a Republican who had won six.

Thus, while incumbency remains one of the most powerful of all political weapons, it is not a permanent guarantee of success.

Another sharp reminder of voter sentiment: California, Colorado, and Oklahoma put limits on the number of years state legislators can serve. Colorado applied its cap to members of Congress as well. While that provision is expected to come under constitutional challenge, the actions of voters in the three states have already revved up the movement to restrict all congressional terms.

The voter unhappiness springs from government policies that have produced a recession, tax increases, and energy vulnerability, among other serious problems that the electorate wants solved.

Before developing policy positions, members of Congress would do well to look to the New Jersey election as a case study in contemporary politics. That state's voters made it clear that the tax-and-spend cycle of the past is no longer acceptable. Shortly after they vented their anger on Bradley as a surrogate for Florio, the liberal governor took his first step back from the tax plan that had produced the backlash at the polls. He also promised to review his entire fiscal and social program.

"I get the message," Florio said.

It's a message that the White House and the 102nd Congress should also get. ■

Free-Spirited Enterprise

By Janet L. Willen

A MAC ATTACK?

How can a small-business person compete against a megacorporation? Threaten a takeover.

ILLUSTRATIONS: BILL COULTER

That's the public-relations strategy of **Ottomanelli's Cafe**, a chain of 20 restaurants in New York. Nicolo Ottomanelli, CEO, is so sure his restaurant makes the "legendary American hamburger" that he's offering one Ottomanelli Burger Bond for one common share of McDonald's stock. The Burger Bond, when duly registered, entitles the bearer to seven Ottomanelli Burgers.

Referring to the sale of McDonald's hamburgers in Eastern Europe, Ottomanelli says: "We can't let the people of the new free world . . . believe that the McDonald's hamburger is the American hamburger of myth and legend."

But what about the fries?

THE CARRIAGE TRADE

For domestic travelers, there's now a "Disneyland for people with scuffed shoes." That's what Jack Barringer of Ames, Iowa, calls his **Cactus Jack's Shoe Shine Co.**

His fantasy lands are shoeshine stands created out of restored horse-drawn carriages and decorated to look like kingly thrones, football helmets, and horse-drawn buggies. They're run by attractive young women.

Most of the stands are at truck travel plazas, Barringer says, because truck drivers' "egos are tied to their boots."

SEEING IS BELIEVING

Dieting is as American as apple pie. A new product from the **Visible Pound,** of Barrington, R.I., is designed to help Americans give up the pie.

Called the Visible Pound, the product is a fluid-filled white or yellow plastic envelope that weighs exactly 16 ounces. It measures 2.5 by 1.5 by 9.5 inches, and it is about the size of a pound of surplus human tissue.

Its slogan is "Carry Me With You, Not On You."

KNOW BEFORE YOU GO

International business travelers who don't like surprises should take a look at the **World Status Map**. This bimonthly publication, produced in Merrifield, Va., lists advisories for travel abroad.

The 11-by-17-inch map offers information from more than 150 sources, including the State Department, the Centers for Disease Control, the United Nations, and foreign governments. Along with news on war, terrorism, and epidemic diseases, it gives passport, vaccination, and visa requirements.

HAVE PHONE, WON'T TRAVEL

Those of us who'd rather stay closer to home could follow Bob Rule's example.

Rule, owner of **Rule Radiophone Service Inc.**, of Cheyenne, Wyo., does business in Washington, D.C., without leaving Cheyenne.

He runs his pocket-pager business by using United Parcel Service and a Virginia phone that forwards all calls to Cheyenne. Rule, a Virginia native, says he wanted to "enter the growth market of the capital city but found . . . the quality of life unacceptable."

Business people and others who communicate long distance are thinking creatively, say Daniel Fishman and Elliot King, authors of *The Book of Fax*.

Via fax, sales people transmit messages while aboard trains, publishers send newsletters to subscribers, and fire department personnel speed floor plans to firefighters en route to a blaze.

A fax has even been used by "one hi-tech Romeo," the authors say, to send "his picture and vita to more than 400 companies." In return he received several marriage proposals. By fax, of course.

COMBINATION ACT

Frozen-food lovers, take heart. The trip from freezer to microwave is getting shorter.

MicroFridge is a combination refrigerator, freezer, and microwave, created by Robert Bennett and manufactured by Sanyo. The microwave is built atop the refrigerator/freezer in the 87-pound unit. The unit measures 43.5 by 18.5 by 20 inches and plugs into a standard outlet. When the microwave is on, the refrigerator shuts itself off, but never for long enough to let cool food turn warm. MicroFridge is available in many economy chain hotels and about 100 colleges.

How are students surviving their all-nighters? They're "chowing down on microwave popcorn," Bennett says.

With ice cream and soda pop, no doubt.


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